IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES, ITS TERRITORIES AND POSSESSIONS, ANY STATE OF THE UNITED STATES OR THE DISTRICT OF COLUMBIA (THE "UNITED STATES")

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions. The attached Prospectus is intended for the addressee only.

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. NOTHING HEREIN CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE SECURITIES OF THE ISSUER. THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

This Prospectus has been delivered or made available to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. By accessing this Prospectus, you shall be deemed to have confirmed and represented to us that (a) you understand and agree to the terms set out herein, (b) you consent to delivery of the Prospectus by electronic transmission, (c) the electronic mail address that you have given to us and to which this email has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia, (d) you are not a U.S. person (within the meaning of Regulation S under the Securities Act) and (e) if you are a person in the United Kingdom, then you are a person (i) who has professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"), (ii) who is a high net worth entity falling within Article 49(2)(a) to (d) of the Order, or (iii) to whom it may otherwise be lawfully communicated.

This Prospectus has been distributed or made available to you in electronic form. You are reminded that documents made available or transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, neither Rothesay Life Limited (the "**Issuer**") nor Goldman Sachs International, Barclays Bank PLC, HSBC Bank plc nor Lloyds Bank plc (together, the "**Joint Lead Managers**") nor any person who controls any such person or any director, officer, employee, agent or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed or made available to you in electronic format and the hard copy version made available to you on request from the Issuer or the Joint Lead Managers.

You may not, nor are you authorised to, deliver this Prospectus, electronically or otherwise, to any other person if you receive this Prospectus by email; your use of this email is at your own risk and it is your responsibility to ensure that it is free from viruses and other items of a destructive nature.

The Notes have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the U.S. or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")).

Nothing in this electronic transmission constitutes an offer of securities for sale to persons other than those described above and to whom it is directed and access has been limited so that it shall not constitute a general solicitation. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described herein.

None of the Joint Lead Managers nor any of their respective affiliates accepts any responsibility whatsoever for the contents of this document or for any statement made or purported to be made by any of them, or on any of their behalf, in connection with the Issuer or the offer. The Joint Lead Managers and their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract or otherwise which they might otherwise have in respect of such document or any such statement. No representation or warranty, express or implied, is made by the Joint Lead Managers or their respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in this document.

The Joint Lead Managers are acting exclusively for the Issuer and no one else in connection with the offer. The Joint Lead Managers will not regard any other person (whether or not a recipient of this document) as their client in relation to the offer and will not be responsible to anyone other than the Issuer for providing the protections afforded to their clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

Prospectus dated 28 October 2015

Rothesay Life Limited

(Incorporated with limited liability in England and Wales with registered no. 06127279)

£250,000,000 8.00 per cent. Subordinated Notes due 2025

Issue price: 100.00 per cent.

The £250,000,000 8.00 per cent. Subordinated Notes due 2025 (the "**Notes**") will be issued by Rothesay Life Limited ("**Rothesay Life Limited**" or the "**Issuer**") and constituted by a trust deed to be dated on or about 30 October 2015 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and the Trustee (as defined in the section headed "*Terms and Conditions of the Notes*" (the "**Conditions**", and references herein to a numbered "**Condition**" shall be construed accordingly)).

The Notes will be direct, unsecured and subordinated obligations of the Issuer, ranking *pari passu* and without preference amongst themselves, and will, in the event of the winding-up of the Issuer or in the event of an administrator of the Issuer being appointed and giving notice that it intends to declare and distribute a dividend, be subordinated to the claims of all Senior Creditors (as defined herein) of the Issuer. The Notes will bear interest from (and including) 30 October 2015 (the "**Issue Date**") at a fixed rate of 8.00 per cent. per annum. Interest will be payable (subject to the following proviso) annually in arrear on 30 October in each year (each an "**Interest Payment Date**"), commencing on 30 October 2016, provided that the Issuer will be required to defer any payment of interest which is otherwise scheduled to be paid if (i) such payment cannot be made in compliance with the solvency condition described in Condition 2(b) (the "**Solvency Condition**"), or (ii) a Regulatory Deficiency Interest Deferral Event (as defined herein) has occurred and is continuing, or would occur if such interest payment were made. Any interest so deferred shall, for so long as the same remains unpaid, constitute "**Arrears of Interest**". Arrears of Interest will not themselves bear interest, and will be payable as provided in Condition 5(c).

Unless previously redeemed or purchased and cancelled, the Notes will mature on 30 October 2025 (the "**Maturity Date**") and shall, subject to regulatory approval and the satisfaction of the Solvency Condition and to no Regulatory Deficiency Redemption Deferral Event (as defined herein) having occurred, be redeemed on the Maturity Date at their principal amount, together with any accrued but unpaid interest to (but excluding) the Maturity Date and any Arrears of Interest. Prior to any notice of redemption before the Maturity Date or any substitution, variation or purchase of the Notes, the Issuer will be required to have complied with relevant legal or regulatory requirements, including as to notifications to, or consent or non-objection from (in each case, if and to the extent required) the Relevant Regulator (as defined herein) and to be in continued compliance with Regulatory Capital Requirements (as defined herein) applicable to it. Subject to that, to the Relevant Rules (as defined herein) implementing Solvency II, to the satisfaction of the Solvency Condition and to no Regulatory Deficiency Redemption Deferral Event having occurred, the Notes may be redeemed at the option of the Issuer before the Maturity Date (i) at any time upon the occurrence of a Tax Event (as defined herein), or (ii) at any time upon the occurrence of a Capital Disqualification Event (as defined herein), at their principal amount together with any accrued but unpaid interest to (but excluding) the date of redemption and any Arrears of Interest (as defined herein). The Issuer may, alternatively, following the occurrence of a Capital Disqualification Event or in the event of certain changes in tax treatment applicable to the Notes, substitute the Notes for, or vary the terms of the Notes so that they remain or become, Qualifying Dated Tier 2 Securities as described in the Conditions.

The Issuer undertakes to re-register as a public company as soon as reasonably practicable following the publication of its audited financial statements for the financial year ended 31 December 2015 and, in any event, by 30 March 2016.

The Prospectus has been approved by the Central Bank of Ireland as competent authority under EU Directive 2003/71/EC as amended (including by Directive 2010/73/EU) (the "**Prospectus Directive**"). The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area (the "**EEA**").

Application has been made to the Irish Stock Exchange plc (the "**Irish Stock Exchange**") for the Notes to be admitted to the official list of the Irish Stock Exchange (the "**Official List**") and to trading on its regulated market (the "**Main Securities Market**"). This Prospectus constitutes a Prospectus for the purposes of Article 5.4 of the Prospectus Directive. References in this Prospectus to Notes being 'listed' (and all related references) shall mean that such Notes have been admitted to the Official List and to trading on the Main Securities Market.

The Notes will be issued in registered form and represented upon issue by a registered global certificate which will be registered in the name of a nominee for a common depositary ("**Common Depositary**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") on or about the Issue Date. Definitive Notes will be issued only in limited circumstances – see the section headed "*Overview of the Notes while in Global Form*". The denomination of the Notes shall be £100,000 and integral multiples of £1,000 in excess thereof.

An investment in the Notes involves certain risks. Prospective investors should have regard to the factors described under the section headed "*Risk Factors*".

Joint Lead Managers

Goldman Sachs International **Barclays** **HSBC** **Lloyds Bank**

This Prospectus comprises a prospectus for the purposes of the Prospective Directive and to give information with regard to the Issuer, its subsidiary Rothesay Assurance Limited ("**RAL**") and its parent Rothesay Holdco UK Limited ("**RHUK**") (the "**Group**") and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and of the rights attaching to the Notes.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Words and expressions defined in the section entitled "*Terms and Conditions of the Notes*" and not otherwise defined in this Prospectus shall, where the context so admits, have the same meaning when used elsewhere in this Prospectus.

Any information contained in this Prospectus which has been sourced from a third party has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by any third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where information has been sourced directly from a third party, the source of such third party is referenced in a footnote corresponding to such information.

No person is or has been authorised to give any information or to make any representations other than those contained in or consistent with this Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Issuer, the Joint Lead Managers (as defined in the section headed "*Subscription and Sale*") or the Trustee. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or that there has been no adverse change in the financial position of the Issuer since the date hereof or that any other information supplied in connection with the Notes is correct as of any time after the date on which it is supplied or, if different, the date indicated in the document containing the same.

The Joint Lead Managers and the Trustee have not separately verified the information contained in this Prospectus. Neither the Joint Lead Managers nor the Trustee make any representation, express or implied, or accept any responsibility, with respect to the accuracy or completeness of any of the information contained in this Prospectus or any other information provided by the Issuer in connection with the distribution of the Notes. None of the Joint Lead Managers nor the Trustee accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the distribution of the Notes. Neither this Prospectus nor any other information supplied in connection with the distribution of the Notes is intended to constitute, and should not be considered as, a recommendation by any of the Issuer, the Joint Lead Managers or the Trustee that any recipient of this Prospectus or any other information supplied in connection with the distribution of the Notes should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus, and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Joint Lead Managers nor the Trustee undertakes to review the financial position or affairs of the Issuer during the life of the arrangements contemplated by this Prospectus or to advise any investor or potential investor in the Notes of any information coming to their attention.

In the ordinary course of business, the Joint Lead Managers have engaged, and may in the future engage, in normal banking or investment banking transactions with the Issuer and its affiliates or any of them.

Neither this Prospectus nor any other information provided by the Issuer in connection with the offering of the Notes constitutes an offer of, or an invitation by or on behalf of, the Issuer or the Joint Lead Managers or the Trustee or any of them to subscribe for, or purchase, any of the Notes (see the section headed "*Subscription and Sale*"). This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law

in certain jurisdictions. The Issuer, the Trustee and the Joint Lead Managers do not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Trustee or the Joint Lead Managers or any of them which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States of America ("**U.S.**") and the United Kingdom ("**UK**"). Persons in receipt of this Prospectus are required by the Issuer, the Trustee and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on the offer and sale of the Notes and on the distribution of this Prospectus, see the section headed "*Subscription and Sale*".

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Subject to certain exceptions, the Notes may not be offered, sold or delivered within the U.S. or to, or for the account of, U.S. persons (as defined in Regulation S).

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing, and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

The Notes are complex financial instruments and such instruments may be purchased by potential investors as a way to enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

(d) understand thoroughly the terms of the Notes and be familiar with the behaviour of the relevant financial markets and of any financial variable which might have an impact on the return on the Notes; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Any websites referred to herein do not form part of this Prospectus.

In this Prospectus, unless otherwise specified, all references to "**pounds**", "**sterling**" or "**£**", "**p**" are to the lawful currency of the United Kingdom.

FORWARD-LOOKING STATEMENTS

This Prospectus includes certain “forward-looking statements”. Statements that are not historical facts, including statements about the beliefs and expectations of the Issuer and the Group and any subsidiaries in the Group and their respective directors or management, are forward-looking statements. Words such as “believes”, “anticipates”, “estimates”, “expects”, “intends”, “plans”, “aims”, “potential”, “will”, “would”, “could”, “considered”, “likely” and “estimate” and variations of these words and similar future or conditional expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon future circumstances that may or may not occur, many of which are beyond the control of the Issuer or the Group and all of which are based on their current beliefs and expectations about future events. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Issuer or the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the present and future business strategies of the Issuer and the Group and the environment in which the Issuer and the Group will operate in the future. These forward-looking statements speak only as at the date of this Prospectus.

Subject to applicable law or regulation, the Issuer expressly disclaims any obligations or undertakings to release publicly any updates or revisions to any forward-looking statements contained in this Prospectus to reflect any change in the Issuer’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

STABILISATION

In connection with the offering of the Notes, Goldman Sachs International (the “**Stabilising Manager**”) (or persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions to support the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but must end no later than the earlier of 30 days after the Issue Date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

TABLE OF CONTENTS

	Page
FORWARD-LOOKING STATEMENTS	3
OVERVIEW	5
RISK FACTORS	10
SUPPLEMENTAL PROSPECTUS	37
TERMS AND CONDITIONS OF THE NOTES	38
OVERVIEW OF THE NOTES WHILE IN GLOBAL FORM	61
DESCRIPTION OF THE ISSUER AND THE GROUP	64
REGULATORY OVERVIEW	99
TAXATION	116
SUBSCRIPTION AND SALE	120
USE OF PROCEEDS	122
GENERAL INFORMATION	123
FINANCIAL STATEMENTS AND AUDITORS' REPORTS	F-1

OVERVIEW

*The following overview refers to certain provisions of the terms and conditions of the Notes and the Trust Deed and is qualified by the more detailed information contained elsewhere in this Prospectus. Terms which are defined in the section headed "Terms and Conditions of the Notes" have the same meanings when used in this overview, and references herein to a numbered "**Condition**" shall refer to the relevant Condition in the section headed "Terms and Conditions of the Notes".*

Issue	£250,000,000 8.00 per cent. Subordinated Notes due 2025.
Issuer	Rothesay Life Limited
Trustee	Citicorp Trustee Company Limited
Principal Paying Agent	Citibank N.A., London Branch
Registrar and Transfer Agent	Citibank N.A., London Branch
Status and Subordination	The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and will rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders (and the Trustee on their behalf) against the Issuer are subordinated in a winding-up of the Issuer or the appointment of an administrator of the Issuer where the administrator has given notice that it intends to declare and distribute a dividend, in accordance with Condition 2(a) and the provisions of the Trust Deed.
Solvency Condition	Except in a winding-up, all payments in respect of the Notes (including, without limitation, payments of interest, Arrears of Interest and principal) will be conditional upon the Issuer satisfying the solvency condition described in Condition 2(b) (the "**Solvency Condition**"), and no amount will be payable in respect of the Notes until the same can be paid in compliance with the Solvency Condition.
Interest	The Notes will bear interest from (and including) the Issue Date to (but excluding) 30 October 2025 at the rate of 8.00 per cent. per annum. Interest will be payable (subject as provided under "*Deferral of Interest*") annually in arrear on each Interest Payment Date.
Interest Payment Dates	30 October of each year, commencing 30 October 2016.
Deferral of Interest	The Issuer will be required to defer any payments of interest on the Notes which would otherwise be due on any Interest Payment Date if (i) such payment cannot be made in compliance with the Solvency Condition, or (ii) a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if such payment of interest was made on such Interest Payment Date. "**Regulatory Deficiency Interest Deferral Event**" means any event (including, without limitation, any event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, all or part of the Group (which part includes the Issuer and at least one other member of the Group) or any insurance undertaking within the Group to be breached and such breach is an event) which under Solvency II and/or under the Relevant Rules means that the Issuer must defer payment of interest

(or, if applicable, Arrears of Interest) in respect of the Notes (in order that the Notes qualify, and/or on the basis that the Notes are intended to qualify, as Tier 2 Capital under Solvency II and any other Relevant Rules). See Condition 5(a).

Arrears of Interest

Any interest in respect of the Notes not paid on an Interest Payment Date as a result of (i) the occurrence of a Regulatory Deficiency Interest Deferral Event, or (ii) the operation of the Solvency Condition, together with any other interest in respect of the Notes not paid on an earlier Interest Payment Date, will, so long as the same remains unpaid, constitute "**Arrears of Interest**". Arrears of Interest will be payable, in whole but not in part, at any time at the election of the Issuer (subject to regulatory consent (if then required) and to the Solvency Condition and provided that a Regulatory Deficiency Interest Deferral Event is not subsisting and would not occur upon payment of the same) upon notice to the Noteholders, the Trustee, the Registrar and the Principal Paying Agent, and in any event all Arrears of Interest will (subject, in the case of paragraph (i) and (iii) below, to regulatory consent (if then required) and to the Solvency Condition) become payable upon the earliest of the following dates:

(i) the next Interest Payment Date which is not a Mandatory Interest Deferral Date and on which a scheduled payment of interest in respect of the Notes (or any part thereof) is made or is required to be made (other than a voluntary payment of Arrears of Interest); or

(ii) the date on which an order is made or a resolution is passed for the winding-up of the Issuer (other than an Approved Winding-up) or the date on which any administrator of the Issuer gives notice that it intends to declare and distribute a dividend; or

(iii) the date of any redemption or purchase of Notes by or on behalf of the Issuer or any of its Subsidiaries pursuant to Condition 6 (subject to the deferral of such redemption pursuant to Condition 2(b) or Condition 6(a)).

No interest will accrue on Arrears of Interest. See Condition 5(c).

Redemption at Maturity

Unless previously redeemed or purchased and cancelled, the Notes will, subject as provided under "*Deferral of Redemption*", be redeemed on 30 October 2025.

Deferral of Redemption

The Issuer will be required to defer any scheduled redemption of the Notes (whether at maturity or if it has given notice of early redemption in the circumstances described under "*Early Redemption at the Option of the Issuer upon the occurrence of a Tax Event or a Capital Disqualification Event*") if (i) the Notes cannot be redeemed in compliance with the Solvency Condition, (ii) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were redeemed, or (iii) (if then required) regulatory consent has not been obtained or redemption cannot be made in compliance with the Relevant Rules at such time.

In the event of any deferral of redemption of the Notes, the Notes will become due for redemption only in the circumstances described in Condition 6(a).

"**Regulatory Deficiency Redemption Deferral Event**" means any event (including, without limitation, where an Insolvent Insurer Winding-up has occurred and is continuing or any event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, all or part of the Group (which part includes the Issuer and at least one other member of the Group) or any insurance undertaking within the Group to be breached and the continuation of such Insolvent Insurer Winding-up is, or, as the case may be, such breach is, an event) which under Solvency II and/or under the Relevant Rules means that the Issuer must defer or suspend repayment or redemption of the Notes (in order that the Notes qualify, and/or on the basis that the Notes are intended to qualify, as Tier 2 Capital under Solvency II and any other Relevant Rules).

Early Redemption at the Option of the Issuer upon the occurrence of a Tax Event or a Capital Disqualification Event

The Issuer may, subject to certain conditions and upon notice to Noteholders, the Trustee, the Registrar and the Principal Paying Agent, at any time, elect to redeem the Notes, at their principal amount together with Arrears of Interest (if any) and any other accrued and unpaid interest thereon to (but excluding) the date of redemption, if a Tax Event or Capital Disqualification Event has occurred and is continuing.

A "**Tax Event**" will occur if:

(i) as a result of a Tax Law Change (as defined in Condition 6 (c)(i)), in making any payments on the Notes, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts (as defined in Condition 8) on the Notes and the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it; or

(ii) as a result of a Tax Law Change, in respect of the Issuer's obligation to make any payment of interest on the next following Interest Payment Date, (a) the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced, or (b) the Issuer would not to any material extent be entitled to have such deduction set off against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of the Tax Law Change or any similar system or systems having like effect as may from time to time exist), and, in each such case, the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it.

A "**Capital Disqualification Event**" is deemed to have occurred if, as a result of the implementation of Solvency II or any change to (or change to the interpretation by any court or authority entitled to do so of) the Relevant Rules, the Directive or (following its implementation) Solvency II, the entire principal amount of the

Notes is fully excluded from counting as Tier 2 Capital for the purposes of the Issuer or the Group as a whole, whether on a solo, group or consolidated basis, except where such non-qualification is only as a result of any applicable limitation on the amount of such capital.

Substitution and Variation at the Option of the Issuer

The Issuer may, subject to certain conditions and upon notice to Noteholders, the Trustee, the Registrar and the Principal Paying Agent, at any time, elect to substitute the Notes for, or vary the terms of the Notes so that they remain or become (in the case of a Capital Disqualification Event) Qualifying Dated Tier 2 Securities if, immediately prior to the giving of the relevant notice to the Noteholders, the Trustee, the Registrar and the Principal Paying Agent, a Tax Event or Capital Disqualification Event has occurred and is continuing.

Additional Amounts

Payments on the Notes will be made without deduction or withholding for or on account of United Kingdom tax, unless such withholding or deduction is required by law. If any such withholding or deduction is required by law, the Issuer will pay such additional amounts as shall result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required by law to be made ("**Additional Amounts**"), subject to some exceptions, as described in Condition 8.

Events of Default and Enforcement

If (i) a default is made for 14 days or more in the payment of any interest (including, without limitation, Arrears of Interest) or principal due in respect of the Notes or any of them, or (ii) a winding-up of the Issuer (other than an Approved Winding-up) occurs or an administrator of the Issuer is appointed and the administrator has given notice that it intends to declare and distribute a dividend, then the Trustee in its discretion may, and if so requested by Noteholders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject, in each case, to its being indemnified and/or secured and/or prefunded to its satisfaction): (a) in the case of (i) above, institute proceedings for the winding-up of the Issuer; and (b) in the case of each of (i) and (ii) above, prove in the winding-up or administration of the Issuer and/or claim in the liquidation of the Issuer (such claim being for such amount, and being subordinated in the manner, as is provided in the Conditions), but (in either case) may take no further or other action to enforce, prove or claim for any payment by the Issuer in respect of the Notes or the Trust Deed. No payment in respect of the Notes or the Trust Deed may be made by the Issuer pursuant to Condition 10(a), nor will the Trustee accept the same, otherwise than during or after a winding-up of the Issuer or after an administrator of the Issuer has given notice that it intends to declare and distribute a dividend, unless the Issuer has given prior written notice (with a copy to the Trustee) to, and received consent or non-objection from, the Relevant Regulator which the Issuer shall confirm in writing to the Trustee.

Form and Denomination

The Notes will be issued in registered form and represented upon issue by a registered global certificate which will be registered in

	the name of a nominee for a Common Depositary for Clearstream Banking, *société anonyme* and Euroclear Bank SA/NV on the Issue Date. Save in limited circumstances, Notes in definitive form will not be issued in exchange for interests in the registered global certificate. The Notes will be issued in denominations of £100,000 and integral multiples of £1,000 in excess thereof.
Listing	Application has been made for the Notes to be admitted to the Official List and for the Notes to be admitted to trading on the Main Securities Market.
Ratings	None.
Governing Law	The Notes and the Trust Deed, and any non-contractual obligations arising out of or in connection therewith, will be governed by and construed in accordance with English law.
Selling Restrictions	The United States and the United Kingdom.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies that may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Any of these risk factors, individually or in the aggregate, could have an adverse effect on the Issuer and the impact each risk could have on the Issuer is set out below.

Factors that the Issuer believes may be material to assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons, and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under or in connection with the Notes

Insurance risks relating to the Group's business

The Group writes only one line of insurance business and therefore any increase in the costs associated with that type of insurance or any failure accurately to assess the value of the liabilities insured could have an adverse effect on the Group's business

The Group's insurance business is currently limited to insuring the liabilities of defined benefit pension schemes, in-payment annuities and deferred annuities. Benefit amounts must be well defined either in real or nominal terms, and there must be sufficient data available to enable an assessment of the value of those liabilities. If the data on which the Group relies to assess the liabilities is unreliable or incorrect, or the cost of such liabilities becomes subject to a sudden, unexpected or unprotected increase, in the absence of sufficient reinsurance arrangements and other reserves, the Group may not be prepared or in a position to cover the increased cost of such liabilities. Given that the Group does not write diversified lines of business, this could have an adverse impact on the Group's business, results of operations and financial position.

There can be no assurance that the Group will continue to write a single line of insurance business. Any decision by the Group to change its business strategy or to write new types of insurance business could result in the Group being subject to different solvency, capital or other regulatory requirements. Future diversification of the Group's business could also subject it to risks that could affect its existing operations. As a result, this could have an adverse impact on the Group's business, results of operations and financial position.

The Group's capital position may be impacted by sudden increases in longevity expectations

The Group has a specific risk tolerance and one of its primary insurance-related risks is longevity risk. The Group has strict underwriting criteria which currently aims to reinsure the majority of the Group's longevity risk within a target range, subject to its defined counterparty risk limits. Its approach is to mitigate longevity risk through extensive use of reinsurance by entering into reinsurance agreements with reinsurers after an insurance transaction is executed. The Group pays an agreed schedule of premiums that are payable to the relevant reinsurer on an ongoing basis in exchange for the reinsurer paying the actual pension benefits as they arise. To date, these reinsurance arrangements have involved no upfront premium outlay being payable by the Group to reinsurers and such arrangements are collateralised for moves in projections of life expectancy. As at 31 December 2014, such measures had the effect of hedging approximately 71 per cent. of the Group's exposure to longevity risk associated with the Group's underlying annuity contracts. However, the Group is also subject to limitations as to the liabilities for which it can obtain reinsurance cover, for example, in relation to deferred members, unmarried dependants and small pension insurance transactions. The Group will also obtain reinsurance cover only where it is economical to do so. In addition to the availability and cost of suitable reinsurance cover, the proportion of risk retained by the Group depends on the nature of the risks that are required to be covered.

Similar to other bulk annuity providers, the performance of the Group's business will depend on the actual experience of mortality rates and mortality trends. The projection of annuity obligations used for pricing and reserving requires a number of actuarial assumptions to be made. Assumptions utilised in the projections are determined using recent historical experience, rating models and reinsurance pricing. The Group conducts rigorous research into longevity risk, using, among other sources, data from its substantial portfolio. As part of its pension annuity pricing and reserving policy, the Group assumes that current rates of mortality continuously improve over time at levels based on adjusted data and models from the Continuous Mortality Investigation, as published by the Institute and Faculty of Actuaries. However, there is uncertainty associated with longevity risk, due to the difficulty in predicting future drivers of longevity improvements and the length of the period for which such risk persists. If mortality improvement rates significantly exceed the improvement assumed, the Group's results of operations could be adversely affected. There is also potential for systemic changes in mortality rates to arise, for example, from a cure for a major disease being found in the near term which may have a limited immediate impact on mortality rates but could have a significant impact on longer-term expectations of mortality rates. As a result, there is the potential for the Group's assumptions about longevity to be incorrect or inaccurate, such that policyholders live for a longer period of time than had been anticipated in the projections forecast by the Group. Conversely, the impact of epidemics and other effects that cause a large number of deaths also have the potential for the Group's assumptions as regards longevity to be incorrect or inaccurate.

In addition, given the nature of the bulk annuities that the Group writes, the assumptions used can only be derived specifically from the section of the population under consideration rather than more broadly. Consequently, the Group is also exposed to longevity "basis risk", which occurs in circumstances when patterns that are detected on, for example, a national level are not necessarily commensurate with, or reflective of, any given subgroup relevant to the Group (such as the policyholders that are members of UK defined benefit schemes). The Group is also subject to "measurement lag risk", which occurs in circumstances where well-defined improvement patterns in the relevant data do not become apparent until a period of time has elapsed.

Any change in longevity expectations may result in the Group having to hold a higher level of reserves and/or capital. It may also impact on the Group's profitability, which could have an adverse impact on the Group's business, results of operations and financial position.

Inaccurate data, incorrect projections or incorrect assumptions may result in the Group holding insufficient reserves to support its liabilities

In common with other life insurers, the profitability of the Group's business depends on a mix of factors including trends in the mortality levels noted above, policy surrender rates, investment performance and impairments, unit cost of administration and new business acquisition expenses. As a consequence, the Group needs to make assumptions about a number of factors in determining the pricing of its products and setting reserves, as well as for reporting its capital levels and the results of its long-term business operations. As noted above, the assumptions that the Group makes about future expected levels of mortality and the risks associated therewith are particularly relevant for its business.

The Group makes assumptions relating to the proportion of policyholders who are married, the age of a policyholder's spouse and the proportion of benefits that will be taken as a lump sum as compared with those taken as regular payments. There may be instances in which the proportion of policyholders who are married is higher than predicted and a greater number of spouses than anticipated are eligible to receive benefits following the deaths of policyholders. Should these circumstances arise, the Group will be required to pay a greater than expected amount of contingent spouse benefits. Similarly, the Group may be required to pay out a higher amount than expected where a deceased policyholder's spouse, who is eligible to receive benefits following the death of a policyholder, is younger than expected. In the event that a greater amount of benefits across the policyholder base are drawn down as a lump sum than was expected, the Group could be required to meet a higher number of upfront payments than anticipated. However, in such circumstances, the Group is released from the obligation to pay the regular annuity benefits that are being settled via the lump sum payment, with a corresponding release of reserve margins and capital.

The Group makes certain assumptions in relation to future expected levels of the rates of early termination of products by its customers, known as persistency assumptions. The Group's persistency assumptions reflect recent past experience for its business. Any expected deterioration in persistency is also reflected in the assumptions. If actual levels of persistency are significantly higher than assumed (such that policy termination rates are significantly lower than assumed), the Group's business, results of operations and financial position could be adversely affected.

The Group holds reserves to try to ensure that it has sufficient funds available to pay its liabilities at the time that they fall due. The calculation of the potential liabilities is based on, among other things, assumptions reflecting the Group's best estimate at the time, allowing a margin for risk and adverse deviation. The Group monitors actual experience as compared with the actuarial assumptions used and it refines its assumptions on the basis of experience. While the Group currently considers that the reserves established in respect of the Group's business are sufficiently conservative to meet its obligations to policyholders, and which include reserving for expenses associated with servicing these obligations, the Group's assumptions may prove to be incorrect or inaccurate (whether as a result of miscalculation by the Group or changes in factors such as longevity which are outside the Group's control). Consequently, the Group could be required to establish additional reserves, which could have a material impact on the Group's results of operations and financial position.

Inaccuracies in data held by the Group or in projections or assumptions made by the Group may (i) result in the Group having to hold a higher level of reserves or a higher level of capital, and/or (ii) have an adverse impact on the Group's business, results of operations and financial position.

The unavailability of adequate reinsurance coverage may adversely impact the Group

The Group enters into longevity reinsurance arrangements with a diversified group of global third-party reinsurers in order to cover a large proportion of its risk. The availability and cost of reinsurance depends upon market conditions and the reinsurers' own financial position. Reinsurers are also subject to changes in legislation and regulation, which could have a material impact on the Group's ability to obtain reinsurance coverage, particularly where such changes give rise to increases in pricing or a reluctance on the part of reinsurers to reinsure certain types of risk.

It is possible that the Group could enter into a defined benefit pension scheme buy-in or buy-out transaction (as described in the section headed "*Description of the Issuer and the Group – Market drivers*") and then be unable to obtain reinsurance in respect of all or part of the liabilities assumed. If the Group is unable to obtain reinsurance, either because there is a lack of reinsurance coverage available due to changes in the reinsurance market, or reinsurance cover is available but only on terms that the Group is not willing or able to meet, the Group would be required to retain a significant portion of risk and could be subject to higher capital requirements as a result. Accordingly, this could have a material adverse effect on the Group's business, results of operations and financial position.

The Group is exposed to conduct risks where its actions result in poor outcomes for policyholders

The Group has issued over 36,000 individual annuity policies and is therefore exposed to conduct risks. Conduct risk arises as a result of the Group's interaction with policyholders and represents the risk that the Group achieves outcomes for customers which are, or could be expected to become, detrimental to them. Additionally, as the Group is reliant on third-party administration providers to service its policyholders, handle claims and distribute its products, there is a risk of the Group being exposed to poor treatment of policyholders through the conduct of the administration providers. Associated risks include, among other things, failings in administration and customer service, and poor policyholder complaint handling. These risks could result in regulatory censure and fines, additional costs incurred and/or policyholder redress, as well as reputational damage. In addition, policyholders or groups of policyholders may seek legal redress where their policy or policies fail to meet their reasonable expectations. Should such conduct risks arise, it is possible that they may have an adverse effect on the Group's business, results of operations and financial position.

Business and economic risks relating to the Group's business

The Group operates in a sector in which the volume of new business can vary from year to year

The volume of buy-in and buy-out transactions by defined benefit pension schemes will fluctuate over time and from year to year as a result of, among other things, changes in the pricing and affordability of defined benefit pension scheme buy-in and buy-out transactions, which can be affected by factors such as the level of real interest rates. A prolonged low interest rate environment in the future may, for example, adversely impact the pricing and affordability of such transactions. This is considered in further detail the section headed "*Description of the Issuer and the Group – Market drivers*".

Past performance is not an indicator of future performance and there can be no assurance that the Group will continue to write the same or similar volumes of business as in previous years nor that there will be upward linear transaction growth in the defined benefit pension scheme buy-in/buy-out sector. Similarly, there can be no assurance that the Group's business will not be affected by any adverse publicity arising from any difference between the Group's results of operations in any financial year and commentators' expectations for such results.

A deterioration in the ratings or value of sovereign debt could have a material adverse impact on the Group's business, results of operations and financial position

Sovereign debt represents a substantial portion of the Group's investment portfolio, of which the majority comprises UK government guaranteed bonds. Accordingly, the Group is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio. In recent years, rating agencies have downgraded the sovereign debt of some countries and there is a risk of further downgrades. Past political negotiations in the U.S. over raising the U.S. debt ceiling indicate that a risk of sovereign debt default and adverse impact on global markets which could result from this is not limited to the UK and the Eurozone.

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of states or monarchs) in the relevant jurisdictions and the creditworthiness of the sovereign. Accordingly, investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the governmental authorities that control the repayment of such debt may be unable or unwilling to repay principal or pay interest when it falls due in accordance with the terms of such debt, and the Group may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy towards local and international lenders, and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or the imposition of regulatory controls or taxes, to devalue their currencies' exchange rates. Governments may also adopt monetary and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of companies or other institutions.

In addition, if a sovereign default or other such event described above were to occur, other financial institutions may also suffer losses or experience solvency or other concerns, and the Group might face additional risks relating to any debt of such financial institutions held in its investment portfolio. There is also a risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be affected, as might counterparty relationships between financial institutions. If a sovereign were to default on its obligations, or adopt policies that devalue or otherwise alter the currencies in which its obligations are denominated, this could have a material adverse effect on the Group's business, results of operations and financial position.

The competitive environment in the UK life insurance market could affect the profitability of the Group and the long-term viability of its business model

The UK insurance industry has experienced significant change in the last decade and increased competition could displace weaker, less competitive companies in the market in which the Group operates. The life insurance market in which the Group operates in the UK is highly competitive. In light of developing demographic trends and as is consistent with other participants in the UK insurance industry, the Group faces strong competition in its business and challenges to its continued profitability. The long-term viability of the Group's product range depends upon an adequate response to such competition by management. The Group's principal competitors include many of the major retail financial services companies and fund management companies including, in particular, Aviva, Legal & General, Pension Insurance Corporation, Prudential, Just Retirement and Partnership Assurance. A number of other insurance companies have also indicated that they are considering entering the market. Several factors affect the Group's ability to sell its products (and therefore its continued profitability), including price and yields offered, financial strength and ratings as regards assets, brand strength and name recognition, investment management performance and developing demographic trends, and the appetite of companies and defined benefit pension schemes for pension de-risking transactions. The Group faces competitors that are larger, have greater financial resources, a greater market share or offer a broader range of products. Further, heightened competition for talented and skilled employees may limit the Group's potential to grow its business as quickly as planned.

Management considers that competition will intensify across the UK in response to demand from companies and defined benefit pension schemes for pension de-risking transactions, the impact of consolidation, regulatory actions and other factors. The Group's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures. A failure to do so may have a material adverse effect on the Group's business, results of operations and financial position.

In addition, competitor companies may merge, cease to write business and go into run-off or otherwise withdraw from major lines of business. While these actions may impact positively on the Group by reducing the number of competitors in the market, they may also result in a material adverse effect on the Group's business, results of operations and financial position, for example, through the increased market strength of a competitor following a merger.

The Group's business is concentrated in the UK and is exposed to events affecting the UK

The Group writes the majority of its business in the UK and is therefore exposed to the economic, market, fiscal, regulatory, legislative, political and social conditions in the UK. Adverse events affecting the economy of the UK and its citizens could have a material adverse effect on the Group's business. The Group is particularly sensitive to the market in which it operates in the UK and economic conditions in respect of its investment portfolio. Consequently, any events which have an adverse impact on the UK economy could have a significant impact on the Group's business, results of operations and financial position.

There can be no assurance that the Group's business will continue to be concentrated in the UK and the Group may in the future seek to carry on business overseas. Consequently, the Group could become subject to additional risks as a result of exposure to foreign economic, market, fiscal, regulatory, legislative, political and social conditions in the relevant countries in which it may seek to carry on business. This could have an adverse impact on the Group's business, results of operations and financial position.

The Group's business is inherently subject to market fluctuations and general economic conditions. A deterioration in the global financial markets (including in the UK) and global economic and market conditions more generally could have a material adverse impact on the Group's business, results of operations and financial position

Like other insurance companies, the Group's business is inherently subject to, and affected by, fluctuations in general macro-economic and worldwide financial market conditions.

Global financial markets are subject to uncertainty and volatility created by a variety of factors, including concerns over sovereign debt, the general slowing in world growth from subdued demand or slow demand, and the timing and scale of quantitative easing programmes of central banks. Upheavals in the financial

markets may affect general levels of economic activity, employment and demand by companies and defined benefit pension schemes for pension de-risking transactions. The demand for annuities, reinsurance and other insurance products may therefore be adversely affected. If this uncertainty or negative trends in international economic and investment climates are sustained, it is likely to have a negative impact on the insurance sector over time and therefore may have an adverse impact on the Group's business, results of operations and financial position.

Since 2008, the Group has operated against a challenging background of periods of significant volatility in global capital and equity markets, interest rates and liquidity, and widespread economic uncertainty. The global financial crisis and the subsequent Eurozone sovereign debt crisis have led to periods of marked deterioration and severe volatility in financial markets internationally. A wide variety of factors, including concerns over slowing growth, high sovereign debt within, and to a lesser degree outside, the Eurozone, the stability and solvency of financial institutions, longer-term low interest rates in developed markets and inflationary threats have contributed to increased volatility in the financial markets in recent years and have diminished growth expectations for the global economy going forward. Global fixed income markets continue to experience periods of volatility and limited market liquidity, which have affected a broad range of asset classes and sectors. Trends in general economic conditions such as consumer spending, business investment, government spending, exchange rates and commodity prices, the volatility and strength of both debt and equity markets, and inflation have also increased uncertainty in financial markets. Consequently, it is clear that in the current economic climate there are a higher number of economic risks than expected in a normal economic cycle. Governments around the world, including in the UK, have intervened to stabilise financial markets through fiscal stimulus and injection of funds, with a particular focus being to avoid the failure of key financial institutions. In the UK, the Bank of England has maintained a policy of low interest rates and implemented quantitative easing in order to support the economic recovery. In a sustained economic phase of low growth and high public debt, characterised by higher unemployment, lower household income, lower corporate earnings, lower business investment and lower consumer spending, the demand for annuity policies could be adversely affected. As a result of these market exposures, the Group's financial position and results of operations may be subject to volatility as a result of these market exposures and there can be no assurance as to the effect of such volatility, particularly if it is prolonged, on the Group's business, results of operations and financial position.

Additionally, the interdependence of global financial institutions means that the failure of a sufficiently large and influential financial institution could materially disrupt global securities markets and settlement systems in such markets. This could cause severe market decline or volatility. Such a failure could also lead to a chain of defaults by counterparties that could materially adversely affect the Group. This risk, known as "systemic risk", could adversely impact the Group's business, results of operations and financial position as a result of reduced confidence in the financial services and insurance industry.

In addition, new challenges related to market fluctuations and general economic conditions may continue to emerge. In the future, the adverse effects of such factors, coupled with a risk of deterioration in global financial markets, could have significant consequences for the business, results of operations and financial position of the Group, and be felt principally through (i) investment impairments or reduced investment returns, which could affect the Group's ability to write significant volumes of new business and would have a negative impact on its assets under management as well as its profitability, (ii) higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses, (iii) increased counterparty credit risk to which the Group is exposed through the failure of counterparties to transactions with the Group or, for derivative transactions, adequate collateral not being in place, (iv) estimates of the value of financial instruments being difficult because of certain illiquid or closed markets, which may result in the value at which financial instruments can be realised being highly subjective (processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time)), (v) increased illiquidity which, in turn, increases uncertainty in relation to the accessibility of financial resources and may reduce capital resources as valuations decline, (vi) a material impact on the Group's ability to meet its liabilities to policyholders, clients and Shareholders should there be a significant reduction in market values, and (vii) an adverse effect on the Group or its subsidiaries' ability to meet their solvency obligations. Accordingly, such factors have significant consequences for the Group's business and could result in a material adverse impact on its business, results of operations and financial position.

Geopolitical issues affecting the UK more generally may have an adverse impact on the Group

The Group's results of operations are materially affected by geopolitical factors which affect the UK. Geopolitical issues in, and emanating from, the Middle East, China, Russia, Ukraine and North Africa have contributed to increased uncertainty and volatility in the financial markets in recent years.

If a European Union ("**EU**") member state ("**Member State**") (particularly the UK) were to seek to leave the Eurozone, or if an EU Member State were to default on its obligations, or if the Eurozone were broken up entirely, the impact on the financial and currency markets would be significant and could impact materially upon all financial institutions and insurance companies, including the Group. It is not possible to predict the manner and extent to which the UK's potential departure from the EU would affect the Group's business but, as the Group operates a UK-based business, such an event could adversely affect the Group's business and results of operations and financial position.

In addition, if Scotland were to become independent from the UK, the impact on financial and currency markets could be significant and may impact materially upon all financial institutions and insurance companies, including the Group. It is not possible to predict the manner or extent to which Scotland's potential independence from the UK would affect the Group's business but, given that the Group operates a UK-wide business, such an event could adversely affect the Group's business, results of operations and financial position.

Circumstances may arise which result in the Group ceasing to write new business in the future

There are a variety of factors which could result in the Group being unable to write new business in the future, including, but not limited to, the actions of key personnel, regulatory intervention and/or adverse conditions in the market in which the Group operates.

Changes in pensions regulation and legislation in particular may have an adverse effect on the volume of new business written by the Group. The Pensions Act 2004 ("**Pensions Act**") introduced changes to the way in which defined benefit pension scheme liabilities are managed by increasing the regulatory requirements for defined benefit pension schemes. This included, among other things, introducing a requirement for the defined benefit pension scheme sponsor to meet any deficit in the defined benefit pension scheme on the funding basis agreed between the defined benefit pension scheme trustee and the defined benefit pension scheme sponsor. This means that the sponsor must meet the cost of insuring the pension scheme liabilities on a buy-out transaction (and the defined benefit pension scheme must then enter into an insurance buy-in transaction in respect of all such liabilities) in order to remove the obligation to make any further contributions to the deficit in the defined benefit pension scheme. Following this, there has been a growth in the volume of pension buy-out and buy-in transactions year on year. However, any future changes to pensions legislation and/or the regulation of defined benefit pension schemes could have a negative impact on the volume of policies underwritten by the Group or increase the Group's costs of doing so, which could adversely affect the Group's business, results of operations and financial position.

A failure of the Group to continue to write new business would have an adverse effect on the financial position of the Group in circumstances where the Group fails to scale back its cost base to correspond with any such reduction in new business volumes. Similarly, any increase in the volume of business written by the Group may have an adverse impact on the Group's business, results of operations and financial position if the Group fails to charge an adequate premium or has insufficient adequate capital to support an increase in its liabilities or fails to scale back its cost base appropriately.

Certain arrangements to effect the completion of the transfer to the Issuer of the insurance business of each of RAL and ZAL are conditional upon court approval, and a failure to obtain such approval could have a material adverse effect on the Group's business, results of operations and financial position

RAL was previously known as Metlife Assurance Limited and was a subsidiary of Metlife European Holdings LLC ("**MetLife**"). RAL was acquired by the Issuer from MetLife on 16 May 2014. RAL has been operationally integrated into the Group and it is intended that such integration will be finalised through the transfer of insurance policies held by RAL to the Issuer under Part VII of FSMA (a "**Part VII Transfer**"). The Part VII Transfer is conditional upon, among other things, court approval. In addition, on 12 May 2015,

the Issuer agreed to acquire, and commenced the reinsurance of, an annuity portfolio from Zurich Assurance Ltd ("**ZAL**"). ZAL operated Zurich UK Life's legacy portfolio of in-payment annuity policies written in the UK, Jersey, Guernsey and the Isle of Man by third parties. The Issuer has reinsured the annuity portfolio for an interim period until it is transferred to the Issuer. It is intended that the transfer of the annuity portfolio will occur under a Part VII Transfer, at which time the Issuer will acquire legal title to the annuity portfolio and assume responsibility for the administration of the policies comprising the annuity portfolio. The Issuer is the relevant party to the reinsurance arrangements with ZAL and it is intended that, upon completion of a Part VII Transfer, the annuity portfolio will transfer to the Issuer.

In the event that court approval is not obtained or any aspect of such Part VII Transfers fail for any reason such that the insurance policies held by RAL are not, or ZAL's annuity portfolio is not, transferred to the Issuer, the Group's business, results of operations and financial position could be materially affected through adverse impacts on the Group's forecasts, as well as the capital position of the Issuer and RAL. However, any insurance policies held by RAL that were not successfully transferred to the Issuer as a result of the failed Part VII Transfer would remain with RAL, and therefore such risk could be managed at a Group level. Similarly, if a Part VII Transfer of the ZAL business were to fail, then the Issuer will be required to continue to reinsure such annuity portfolio on an ongoing basis.

Credit, market and liquidity risks relating to the Group's business

The Group has exposure to various investment assets and any losses on the Group's investments may have a material adverse impact on the Group's business, results of operations and financial position

The Group's primary investment classes comprise corporate bonds, Gilts and collateralised derivative assets, with other investments described in the section headed "*Description of the Issuer and the Group – Investment management*". The Group holds investments in order to meet its liabilities and its profitability depends to a large extent on the returns achieved on its investment portfolio. However, the value of investment assets fluctuates, which can have a sudden and unexpected impact on the Group's capital levels. In the event of a downturn in the fixed income and/or other investment markets, there is a risk that the Group's liabilities will exceed the value of its assets due to asset values falling. This could have an adverse impact on the Group's business, results of operations and financial position.

The Group has exposure to default risk in relation to its investments

The majority of the Group's investment assets comprise bonds, Gilts and collateralised derivative assets, pursuant to which the Group is entitled to receive payments of interest and repayment of principal from the issuers of such instruments. The Group also seeks investment opportunities, including, among others, sovereign debt, supranational debt, secured residential lending, other secured lending, regulated infrastructure, collective investment schemes, cash and highly rated corporate bonds with a negative basis risk premium. As noted above, sovereign debt represents a substantial portion of the Group's investment portfolio, of which the majority comprises UK government guaranteed bonds. The Group is therefore exposed to the risk of a default in payment of the instruments held in the Group's investment portfolio, including the risk of a default by the UK government on the bonds that are held by the Group.

The investment strategy pursued by the Group seeks to minimise credit default risk and secure an illiquidity premium through (i) investing in low-risk asset classes such as government guaranteed bonds, (ii) investing in asset classes with security and other structural mitigation which protects the Group against loss in the event of a default, and (iii) limiting outright credit risk through the use of credit derivative hedges. In addition, the Group has accumulated an asset base for which few fundamental credit assessments are required. Monitoring and re-hedging of the Group's credit exposure occurs on a daily basis. However, there can be no assurance that such hedging will be effective in protecting the Group from such risk.

Notwithstanding the Group's conservative investment strategy and its approach to risk management, any credit default risk resulting in the loss of all or part of the cash flow generated by the Group's investment assets could have a direct, immediate and materially adverse impact on the value of the Group's investment portfolio and on the income and returns that the Group expects to realise on such investments. If the investments held by the Group are subject to defaults, this may have a material adverse impact on the Group's business, results of operations and financial position.

The Group enters into reinsurance treaties, agreements, investments and hedging contracts with a range of counterparties. Any failure by those counterparties to meet their obligations to the Group could have a material adverse effect on the Group's business, results of operations and financial position

The Group enters into longevity reinsurance transactions in respect of its longevity-related liabilities. The Group is therefore exposed to the failure of the counterparties to the arrangements. Should there be a default or other failure by any reinsurance counterparty to meet its obligations to the Group, the Group's ability to meet its own obligations to the relevant policyholders may be affected. This could have a material adverse impact on the Group's business, results of operations and financial position. The Group's largest reinsurance-related exposures are to Pacific Life Re, Prudential Retirement Insurance and Annuity Company and Reinsurance Group of America, Inc. A failure of one of these reinsurers in particular could have a material adverse effect on the Group's business, results of operations and financial position.

The Group also utilises over-the-counter derivative transactions to manage risks across its portfolio, for example, the purchase of credit protection on bonds held in negative basis packages, interest rate hedging contracts, inflation delta hedging contracts and inflation volatility risk hedging contracts. The Group is therefore exposed to counterparty risk through the potential failure of one of these counterparties. A default by a hedging counterparty could have an adverse effect on the Group's business, results of operations and financial position.

Credit spread volatility may adversely affect the net unrealised value of the Group's investment portfolio

Credit spreads are sensitive to many factors, including changes in tax policy or legislation, regulatory requirements, changes in governmental policies, domestic and international economic and political considerations, inflationary factors, fiscal deficits, default on fixed income securities and other factors beyond the Group's control.

Any widening of credit spreads will generally reduce the value of fixed income securities, which could have a material adverse effect on the Group's regulatory capital position and may result in the Group being required to divest a portion of some of its investments in order to meet its liabilities. Credit spread tightening will generally increase the value of fixed income securities. In the event that credit spreads widen in anticipation of a default, reduction in the value of the Group's assets may not correspond to an equivalent reduction in the value of the Group's liabilities.

Challenging conditions in the capital and credit markets may significantly impact the Group's ability to meet its liquidity needs

The Group needs liquidity in order to fund its insurance operations, as well as to meet policyholder claims and operating expenses. The Group relies on its holdings of liquid assets, investment income and premiums to meet its liquidity requirements. A lack of liquidity may prevent the Group from being able to pay its annuity obligations to policyholders as amounts fall due and also may limit the Group's ability to satisfy collateral calls as they arise. Difficult market conditions may reduce the availability of such liquidity sources, which could limit the ability of the Group to continue as a going concern or write new business and/or, in extreme circumstances, impact upon the Group's ability to meet its other obligations to policyholders and third parties as they arise.

The liquidity position of the Group is continually monitored. While a cash liquidity buffer exists, ongoing monitoring also allows mitigating actions to be taken at an early stage. The Group assumes conservative instantaneous market shocks to its liquidity position within certain parameters and measures the value of assets held which may be used to satisfy collateral posting requirements and also movements in the value of derivatives which may require collateral to be posted to derivative counterparties. In the event of an illiquid market, the Group may need to seek additional financing in order to meet its short-term cash flow requirements as they fall due. Depending on the availability of credit and/or the ease with which the Group can access other forms of financing (such as the debt capital markets), the Group may have difficulty in obtaining the necessary capital required to operate its business and may have to realise its investments at a reduced value. The Group seeks to mitigate liquidity risk by dedicating sufficient investment resources to liquid assets that would allow it to meet short-term liabilities. Liquidity risk is not considered to be a major

risk for the Group and is likely to affect the Group only in the event of extremely challenging market conditions.

In addition, large short-term cash flow requirements may arise from collateral calls generated by the Group's portfolio of hedging instruments such as interest rate swaps, inflation rate swaps and foreign exchange contracts. Although the Group seeks to ensure that it has adequate collateral arrangements in place to support such transactions, there can be no assurance that these arrangements will always be sufficient, particularly in times of severe market volatility.

Sourcing illiquid, bespoke, secured or collateralised assets may prove difficult in the future and investing in such assets may expose the Group and/or its subsidiaries to liquidity and regulatory risks, and changes in government attitudes to implicit sovereign support may change the risk profile of the portfolio

Part of the Group's conservative investment strategy is to invest in low-risk assets that benefit from collateral, hedging arrangements or other security and extract value from the illiquidity that is associated with the types of assets. Almost 40 per cent. of the Group's investment portfolio is invested in secured lending against property or other collateral. The majority of these investments are bespoke, with high levels of collateral, and returns are generated through illiquidity premiums. The Group makes asset investment decisions with an objective of ensuring that projected returns that can be generated from assets are secure and sustainable for the term of the policyholder reserves. When acquiring assets, the Group seeks to minimise potential losses from any potential default in relation to such assets through physical or structural security or through implied or explicit sovereign support. Such assets are difficult to source because of their bespoke nature. Changes in applicable legislation and regulations may also affect whether the Group's current and future asset portfolio satisfies Regulatory Capital Requirements.

Changes in interest rates, inflation and foreign exchange rates may adversely affect the value of the Group's assets and liabilities

Interest rates

The Group invests in fixed income securities in order to support its annuity obligations to policyholders. Interest rate exposure therefore arises due to movements in future expectations of interest rates. Interest rates are sensitive to many factors and fluctuations in interest rates in particular affect the returns that the Group may earn on fixed interest investments or other interest rate sensitive investments. Increases or decreases in interest rates affect the market values of the fixed income securities that the Group holds. Interest rate risk arises primarily where assets and liabilities do not correspond with the Group's projections in relation to its interest rate exposure. There is therefore a risk that the market value of the Group's assets is not sufficient to meet the present value of its insurance obligations, which would have a material adverse impact on the Group's business, results of operations and financial position.

As noted above, the Group hedges its liability, cash flows and exposure to interest rate risk, allowing for netting across its investment assets and insurance liabilities, by entering into a portfolio of interest rate swaps. The portfolio is constructed by analysing the sensitivity of all investment assets and insurance liabilities to movements in each of the underlying market instruments. A portfolio of interest rate swaps can then be constructed which replicates these sensitivities. Monitoring and re-hedging of the Group's exposure to interest rate swaps occur on a daily basis. However, there can be no assurance that such hedging will be effective in protecting the Group from such risk.

The Group seeks to meet cash outflows with respect to its liabilities with the cash flows and proceeds generated from its assets. As interest rates decrease or continue to remain at low levels, and investments held by the Group reach maturity, the Group may be required to reinvest the proceeds of these matured investments at lower yields, which could impact the Group's business, results of operations and financial position and particularly its capital position.

Inflation

A proportion of the Group's annuity payments are linked to published consumer and retail price indices and may be subject to caps and floors. In addition, the Group and/or its subsidiaries' expenses are likely to increase with some measure of inflation. Inflation, as measured by reference to such consumer and retail

price indices, is therefore a continuing risk for the Group and/or its subsidiaries. Although some of the Group's liabilities are protected from inflation rises, inflation risk typically arises where the Group's assets and liabilities are mismatched to the Group's projections of movements in interest rates. There is therefore a risk that movements in inflation rates (or future expectations in relation thereto) may result in the market value of the Group's assets being insufficient to meet the present value of its annuity obligations, which would have a material adverse impact on the Group's business, results of operations and financial position.

Fluctuations in inflation also affect the value of the Group's liabilities, as they are typically inflation-linked. They may also impact the returns the Group earns on its inflation-linked investments as well as the market values of those investments. In particular, a sustained fall in inflation and move to a deflationary environment may have a material adverse impact on the valuation of certain of the Group's assets and liabilities.

The Group hedges its liability, cash flows and net exposure to inflation risk by analysing the sensitivity of all investment assets and insurance liabilities to the movements in each of the underlying market instruments and constructing a portfolio of inflation rate swaps that replicate these sensitivities. Monitoring and re-hedging of the Group's inflation risk occur on a daily basis. However, there can be no assurance that such hedging will be effective in protecting the Group from risks associated with its exposure to changing inflation.

Foreign exchange rates

The Group principally operates in the UK and its assets and liabilities are primarily denominated in sterling. However, a small proportion of the Group's pension obligations and investments are denominated in other currencies such as Euros and U.S. dollars. Foreign exchange rate fluctuations could affect the value of the Group's investment assets and cash flows. Foreign exchange rate exposure relating to the translation of reported earnings could impact on the Group's financial reporting ratios, gearing ratios and surplus capital position for regulatory reporting purposes.

The Group seeks to hedge its liability, cash flows and net exposure to changes in foreign exchange rates by entering into a portfolio of exchange rate swaps which also match the term of its exposure. The portfolio is constructed by analysing the sensitivity of all investment assets and insurance liabilities to movements in the exchange rates between sterling and each of the currencies to which the Group is exposed. Monitoring and re-hedging of the Group's exposure to changes in foreign exchange rates occur on a daily basis. However, there can be no assurance that such hedging will be effective in protecting the Group from risks associated with the Group's foreign exchange rate exposure.

Failure by the Group appropriately to hedge its liabilities in relation to buy-in or buy-out transactions or other annuity transactions could adversely impact the Group

In circumstances where the Group quotes pricing for a buy-in or buy-out transaction and such pricing is made available for acceptance for a defined period but the Group has not entered into hedging contracts in relation to the interest rate and inflation assumptions on which such pricing quotes are based, there is a risk that the Group may not be able to enter into appropriate hedging arrangements (or would not be able to do so at a reasonable cost) following the execution of the buy-in or buy-out transaction. The Group is further exposed more generally to execution risk in respect of hedging transactions entered into after the completion of buy-in and buy-out transactions and in respect of future replacements or renewals of such hedging arrangements. Failure by the Group adequately to hedge its liabilities could have a material impact on the Group's business, results of operations and financial position.

Events leading to a negative perception of the financial services sector as a whole could adversely affect the Group's perceived creditworthiness as well as its business, results of operations and financial position

The Group's perceived creditworthiness is influenced by the perception and confidence of wholesale investors in relation to the UK insurance and the financial services sectors. Factors impacting this perception include the adverse performance of investment markets, actions by regulators against organisations operating in the UK financial services sector and shock events such as significant market failures. The Group seeks wherever practicable to mitigate the effects of these risks. The financial crisis, subsequent investment performance and the low interest rate environment, together with general perceptions of the robustness of

insured financial institutions (for example, the perceptions of policyholders), may also impact customer attitudes to long-term savings. Recent regulatory actions, for example, with regard to the sale of payment protection insurance, may also adversely impact perceptions of the value of insurance products and result in changes to the regulatory and legislative environment in which the Group operates, which could adversely affect the perceived creditworthiness of the Group, as well as its business, results of operations and financial position.

The Issuer does not have listed equity in issue and therefore has no ready access to the equity capital markets

The Issuer does not have equity securities listed on a regulated market, nor does any other entity within the Group and nor do its subsidiaries. The Group therefore does not have ready access to the equity capital markets.

The Shareholders are under no obligation to contribute further equity to the Group or the Issuer or their subsidiaries.

Operational and strategic risks relating to the Group's business

The Group's brand and reputation are of significant importance to its ability to attract clients and new business and any damage to that brand could have a material impact on the Group's business and profitability

As the Group expands and grows its business, its brand is becoming more recognisable and its reputation as one of the leading providers in the market in which it operates is becoming widely known. As a result, any damage to the Group's brand or reputation, or a decline in policyholder, trustee, client or counterparty confidence in the Group, could have a material adverse effect on the Group's business, results of operations and financial position.

Management considers that the management of reputational risk is critical to its business. The Group's success and results are, to a large extent, dependent on the Group's brand, as well as the reputation of the Group's board of directors and senior management team (particularly its key personnel). Integrity, client trust and policyholder trust and confidence are paramount to the Group's brand and reputation. Any adverse publicity (whether well founded or not) associated with the Group, its board of directors or senior management, as well as its customer service or product offering, could result in a loss of business. A material operational loss that is publicised and any adverse regulatory or legal actions impairing the Group's brand, or any adverse publicity or fines, could damage the public image of the Group and its brand and negatively affect customer confidence in the Group. This may result in a loss of current business and a downturn in new business volumes and sales, which could have a material adverse effect on the Group's business, results of operations and financial position.

The Group and its subsidiaries are reliant on their internal and external systems, processes and controls (including information technology) and any failure of such systems, processes and controls could have a material adverse effect on the Group's business

Operational risks are inherent throughout the Group's business. The Group and its subsidiaries are exposed to operational risks, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes and controls (including key outsourcing arrangements), systems, business disruptions, human error, negligence, fraud, external events and failure to attract, motivate and retain skilled personnel (in particular, key management personnel).

The Group's business is dependent on processing a large number of transactions and is subject to a number of different legal and regulatory regimes. Further, because of the long-term nature of much of the Group's business, accurate records have to be maintained for significant periods. These factors, among other things, result in significant reliance on, and require significant investment in, information technology ("**IT**"), compliance and other operational systems, personnel and processes. In addition, the Group and its subsidiaries outsource several operations, including a significant part of its UK back-office and customer-

facing functions as well as a number of IT functions, resulting in reliance upon the operational processing performance of its outsourcing partners.

The Group and its subsidiaries are heavily reliant on its operational systems, business resilience systems and IT capabilities to conduct its business. IT is key to a number of the functions within the Group's business, including calculating and measuring its capital requirements, taking into account its liabilities, assessing risk exposure, producing financial and management reports, processing and retaining data relating to the defined benefit pension scheme and defined benefit pension scheme members which it has underwritten and maintaining accurate data and records.

Although the Group and its subsidiaries' IT, compliance and other operational systems and processes incorporate controls designed to manage and mitigate the operational risks associated with their activities, there can be no assurance that such controls will always be effective. Although the Group and its subsidiaries have not experienced a material failure or breach in relation to its legacy and other IT systems and processes to date, they may in the future become subject to computer viruses, attempts at unauthorised access and cyber-security attacks. Any such issues may, among other things, compromise the Group's ability to monitor its position with respect to its investments, hedging, liabilities and capital position.

The Group and its subsidiaries' IT systems and processes, as with operational systems and processes generally, may be susceptible to failure or breaches. In the event of any damage, failure, harm to or interruption in the IT systems deployed in respect of these functions, whether as a result of human error, unauthorised usage, natural disasters or other matters outside the Group and/or its subsidiaries' control, such events could, among other things, harm the Group and/or its subsidiaries' ability to perform necessary business functions, result in the loss of confidential or proprietary data (exposing it to potential legal claims and regulatory sanctions) and damage its relationships with its business partners and customers. As a result, the Group's operations may be severely disrupted, or the Group may be subject to customer or counterparty complaints or litigation, and could incur significant costs which in turn could have a material adverse effect on the Group's profitability, results of operations and financial position. Similarly, any weakness in the Group's administration systems or actuarial reserving processes could have an impact on its results of operations during the effective period. Neither the Group nor its subsidiaries have experienced or identified any operational risks in their systems or processes during 2014 and the first half of 2015, which have subsequently caused, or are expected to cause, a significant negative impact on its results of operations. Although the Group and its subsidiaries have disaster recovery and business continuity plans in place, there is no guarantee that these plans will be sufficient in the event of a particular issue or disaster which the Group and/or its subsidiaries' systems, processes and controls are not equipped to deal with. Any material loss or damage to the information or data stored in the Group and/or its subsidiaries' systems could significantly impair the Group's ability to conduct its business and may have an adverse effect on the Group's results of operations and financial position.

Notwithstanding anything in this risk factor, it should not be taken as implying that the Group considers that (i) the regulated entities, the Issuer and RAL, will be unable to comply with their obligations as authorised firms regulated by the Financial Conduct Authority ("**FCA**") and the Prudential Regulation Authority ("**PRA**"), or (ii) the Issuer will be unable to comply with its obligations as an applicant proposing to have the Notes admitted to the Official List and to trading on the Main Securities Market.

The Group collects, retains and maintains policyholder and defined benefit pension scheme information and data and any failure to protect such information could have a material adverse effect on the Group

The Group is required to collect, process, retain and maintain certain information and data, including personal data. The collection, handling and retention of such data is subject to the Data Protection Act 1998 (the "**DPA**"). For more details, see the section headed "*Regulatory Overview*".

Failure by the Group or any of its third-party service providers to comply with the DPA could result in significant fines, censure or other action by the Information Commissioner, the office responsible for the enforcement of the DPA, which could have a material impact on the Group's financial position. Any loss or unauthorised use or sharing of data held by the Group could also result in adverse publicity, which, as noted above, could affect the Group's business, results of operations and financial position.

In addition, the Group is exposed to the risk that the personal data it retains and controls could be wrongly accessed, distributed or used, whether by employees or third parties, or otherwise lost, disclosed or processed, in breach of the DPA. If the Group, or any of the third-party service providers on which it relies, fails to adequately process, store or protect such personal data in a secure manner, or if any theft or loss of personal data were to otherwise occur, the Group could be liable under the DPA. This could result in adverse publicity for the Group, which could affect the Group's business, results of operations and financial position.

The Group relies on the contributions of key individuals for the continued success of its business, the loss of which could have an impact on the Group's operations and profitability

The Group's future success depends on the continued services and performance of certain key personnel and on its ability to attract, train, motivate and retain high-quality and highly skilled personnel. The Group and its subsidiaries substantially depend upon the continued services and performance of the Chief Executive Officer and Managing Director, as well as other members of the senior management team and the board of directors. The Group and/or its subsidiaries have entered into employment contracts or letters of appointment with these key personnel. However, no assurance can be given that they will continue to be employed by, and provide services to, the Group or its subsidiaries. The loss of their services, whether through retirement or otherwise, could have a material adverse impact on the Group's business, results of operations and financial position.

The Group's future success also requires that it continues to have the ability to attract, motivate, train and retain a growing team of employees of suitable skill and experience in all areas of the Group's business. The Group may in future be unable to attract, motivate and retain such people. The Group's continued success and profitability depends on its ability not only to attract and retain increasing numbers of staff, but also to dedicate sufficient resources to their training and professional development.

The Group relies on various third-party service providers to which it outsources key functions and services. Any loss of, or any negative financial consequences arising in connection with, the provision of these functions or services could have a material impact on the Group's business

The Group outsources certain activities to third parties and its outsourcing partners, including, among others:

- Northern Trust and SunGard who provide business continuity services and operational and risk management systems;
- JLT Employee Benefits and Towers Watson who each provide policyholder administration services for bulk arrangements and annuitised schemes;
- Towers Watson who also undertakes the actuarial function holder role for the Issuer and RAL; and
- PricewaterhouseCoopers LLP ("**PwC**") who provide audit services.

In addition, in connection with Goldman Sachs' divestment of 64 per cent. of the Group to the Blackstone Shareholders, the GIC Shareholder and the MassMutual Shareholder in 2013 (see the section headed "*Description of the Issuer and the Group – History and Ownership of the Group*"), the Group has been undertaking a project to separate the Group's systems and process support from those of Goldman Sachs International. The separation project is ongoing and is expected to be completed by the end of 2017. As a result, Goldman Sachs International continues to provide certain systems and process support to the Group, pursuant to the terms of an arm's length transitional services agreement which is closely monitored by a Separation Committee comprising members from Goldman Sachs International and the Group. Although no significant issues have arisen to date, the migration of the Group's systems and processes from Goldman Sachs International to Northern Trust and SunGard presents a number of operational and performance risks to the Group should technical issues arise that prevent or significantly delay the effective transfer of these systems.

The Group and its subsidiaries are therefore reliant upon the services and operational processing performance of these third parties and other outsourcing partners, but the Group remains fully responsible for discharging all of its outsourced obligations pursuant to the regulatory system prescribed by, among other

things, the requirements of the FCA's Senior Management Arrangements, Systems and Controls Sourcebook ("**SYSC**") and the DPA. The Group takes reasonable care to supervise the performance of any outsourced functions, including the Group's obligations to protect the confidential information and personal data of its policyholders. Failure by the Group to comply with its outsourcing obligations may result in a breach of the relevant rules or legislation and could give rise to criminal or civil liability and other enforcement action, as well as reputational damage.

In addition, if the services provided by such third parties or outsourcing partners were to prove to be insufficient or inadequate, result in financial losses or cease to provide services for any reason, or issues were to arise that would prevent or significantly delay the effective transfer of the Group's systems and processes from Goldman Sachs International to Northern Trust and SunGard, this could have a material adverse effect on the Group's business, results of operations and financial position. There is a also risk that the performance by the Group of any outsourced regulatory obligations may be negatively affected following the failure of, or a significant degradation in service received from, such third parties or outsourcing partners (for example, in relation to the provision of information to policyholders). The Group is also susceptible to risks associated with the potential financial instability of such third parties or outsourcing partners. The Group's risk management activities and high-value functions are managed internally in order to mitigate this risk and to ensure the direct oversight of key functions and of third-party service providers.

Notwithstanding anything in this risk factor, it should not be taken as implying that the Group considers that (i) the regulated entities, the Issuer and RAL, will be unable to comply with their obligations as authorised firms regulated by the FCA and the PRA, or (ii) the Issuer will be unable to comply with its obligations as an applicant proposing to have the Notes admitted to the Official List and to trading on the Main Securities Market.

Legal and regulatory risks relating to the Group's business (including those relating to standards of accounting and taxation)

Risks relating to the regulatory and legislative environment, including those relating to accounting standards and taxation

The Group is subject to financial regulation in the UK and the UK regulatory framework that applies to life insurance companies. The Issuer and RAL are authorised by the PRA and regulated by the PRA and the FCA. The PRA has responsibility for the prudential regulation of insurers and the FCA has responsibility for the regulation of conduct of business.

As the regulatory approach of the PRA and FCA evolves, there may be future changes to the nature of, or policies for, prudential regulation and conduct of business supervision, which could lead to a period of uncertainty for the Group. Accordingly, no assurance can be given about the likelihood of further changes to the regulatory regime. Any such changes may have a material adverse effect on the Group (in particular, the Issuer and RAL), its strategy and profitability, and therefore on the Group's business, results of operations and financial position. The Group maintains ongoing dialogue with the relevant regulators and industry bodies in order to ensure ongoing compliance and the ability to react quickly to any unanticipated changes.

The Issuer and RAL are required to obtain and maintain certain permissions from the PRA and the FCA and to comply with various rules and regulations in order to conduct the Group's insurance business lawfully in the UK. For more details about the regulatory environment within which the Issuer and RAL operate, please see the section headed "*Regulatory Overview*". Failure to comply with any regulatory requirements may result in the PRA and/or the FCA taking action against the Group (in particular, the Issuer and RAL), which could include imposing fines or sanctions or limiting or revoking the necessary permissions. Such action may also result in the Group being unable to carry on its insurance business and therefore may adversely affect the Group's business, results of operations and financial position.

The Group is required to comply with capital adequacy requirements and failure to do so could have a material adverse effect on the Group's business

The Group is required to maintain a minimum level of assets (regulatory capital) in excess of the value of its liabilities in order to comply with certain regulatory requirements. Current EU directives, including the

Directive on the Supplementary Supervision of Insurance Companies in an Insurance Group (1998/78/EC) (the "**EU Insurance Groups Directive**"), require EU financial services groups to demonstrate a net aggregate surplus capital in excess of solvency requirements at the Group level in respect of shareholder-owned entities. The test is a continuous requirement and the Group needs to maintain a higher amount of regulatory capital at the Group level than would otherwise be necessary in respect of some of its individual businesses. The EU is also in the process of implementing a new prudential regulatory framework for insurance companies, referred to as "Solvency II", in each Member State including the UK. The approach is based on the concept of three pillars. Pillar 1 consists of quantitative requirements, for example, the amount of capital an insurer should hold. Pillar 2 sets out requirements for the governance and risk management of insurers, as well as for the effective supervision of insurers. Pillar 3 focuses on disclosure and transparency requirements. These requirements are explained in more detail below and in the section headed "*Regulatory Overview*".

Under the current regulatory framework for managing solvency capital requirements, the Issuer and RAL must assess their capital requirements on a Pillar 1 (regulatory capital) statutory basis and Pillar 2 (individual capital assessment) basis and must hold sufficient qualifying regulatory capital to satisfy both tests. In the event that the Issuer and/or RAL are unable to meet their Regulatory Capital Requirements, the PRA may intervene and require the Issuer and/or RAL to take certain steps to restore their regulatory capital to acceptable levels, for example, by requiring the Issuer and/or RAL to cease to write or reduce writing new business. The Issuer and/or RAL might also need to re-allocate capital across their business, increase prices, increase reinsurance coverage or adopt a new investment strategy, including by making significant changes to the investment portfolio.

Under the current regulatory framework for managing solvency capital requirements, the Issuer and RAL are required to publicly disclose their Pillar 1 position, whereas the Issuer and RAL are required by the PRA to keep their Pillar 2 position confidential.

The Issuer and RAL manage their business to the economic capital requirements in a manner that is consistent with the Pillar 2 individual capital assessment, plus an additional buffer to achieve a lower probability of default. While the Issuer and RAL (and therefore, the Group) are currently able to meet their Regulatory Capital Requirements, changes in legislation, regulation, regulatory requirements or market conditions may result in the Issuer and RAL being unable to do so in the future. This could lead to the PRA limiting or revoking the permissions which the Issuer and RAL require in order to carry out insurance business, which could materially impact the Group's business, results of operations and financial position.

In relation to ZAL and the defined benefit pension schemes which the Issuer and RAL have insured by way of buy-in transactions only, an adverse event which results in a significant deterioration in the Issuer and RAL's solvency could result in the recapture of the relevant assets and an unwinding of the transaction by ZAL or the defined benefit pension scheme trustee, if such a recapture is a right of the trustee under the relevant buy-in insurance policy. The Issuer and/or RAL may in the future enter into new reinsurance or buy-in insurance policies where a defined benefit pension scheme trustee's recapture right is a feature of the policy. Such recapture could have an adverse effect on the Group's business, results of operations and financial position.

The current solvency regime with which the Group is required to comply is undergoing significant change, the outcome of which remains uncertain

As noted above, the insurance industry is moving towards the implementation of the Solvency II regulation agreed by the European Parliament in 2009. Solvency II requires EU domiciled insurers to move to more risk-based capital requirements. Solvency II is applicable to the EU insurance sector and has been developed with the aim of codifying and harmonising prudential regulation for insurers, applying more consistent risk-sensitive standards to insurers' capital requirements and to assist in ensuring a common set of principles for supervision is applied across the EU. This new framework is the result of the European Commission's review into the prudential regulation of insurers, and contains requirements in relation to regulatory capital, the valuation of assets and liabilities, the treatment of insurance groups, the definition of capital, the overall level of capital requirements, calculating technical provisions and regulatory reporting. It will also replace the existing life, non-life, reinsurance and insurance group Directives.

The Solvency II Directive was formally approved by the Economic and Financial Affairs Council in November 2009, although its implementation was delayed pending agreement on Directive 2014/51/EU (the "**Omnibus II Directive**"), which amended certain aspects of the Solvency II Directive. The Omnibus II Directive was adopted by the Council of the European Union in April 2014. The implementation date for Solvency II is 1 January 2016.

A key aspect of Solvency II is the requirement to manage the Group business on an economic capital basis. The new regime for insurers under Solvency II will be such that the Group may be permitted to make use of internal economic capital models when calculating their capital requirements, provided the prior approval of the PRA has been obtained. The PRA also has the ability to require insurers to hold additional capital above its own assessment both ahead and following the implementation of Solvency II. In line with PRA recommendations to internal model firms, the Group is in the process of seeking approval of the PRA to enable it to make use of a partial internal economic capital model to calculate some components of its Solvency Capital Requirement.

Solvency II represents a significant change in the prudential regulation of insurers and insurance groups and, as a result, generates a number of material risks. In particular, although the underlying intention and purpose behind the incoming regime is generally understood and the Group has the capability to operate under this framework (including in relation to its capital position), there remain areas of uncertainty regarding the appropriate interpretation of some aspects of the text of the Solvency II Directive and the additional measures adopted to give effect to the Solvency II Directive. Additionally, there continue to be material uncertainties in relation to the impact of the more detailed technical requirements of Solvency II for insurance companies and the approval of the Group's partial internal economic capital model, including that part or all of the intended scope of the internal economic capital model may not be approved, and there is a risk that this could lead to (i) an increase in the capital required to support the Group's business, (ii) a change to the Group's capital model and/or its investment strategy, and/or (iii) an increase in the Group's expenses as a result of the Group needing to change its capital model and/or investment strategy. There is also a risk that certain financial instruments issued by the Group (including the Notes) will no longer be viewed as regulatory capital by the relevant regulators, which could result in the Group either (i) being regarded as having a lower regulatory capital position, (ii) needing to refinance those financial instruments, and/or (iii) being required to raise additional capital in order to meet its Regulatory Capital Requirements under Solvency II. Consequently, a potentially significant increase in capital could be required to support the Group's business and costs associated with further developments to the Group's partial internal economic capital model and the Group's enhanced risk management and governance framework. A failure by the Group to increase its capital could have a significant impact on the Group's business, results of operations and financial position.

There are also uncertainties around the transitional measures that will apply upon the implementation of Solvency II and the impact that these will have on the Group. Following the implementation date of Solvency II, regulators may continue to issue guidance and other interpretations of applicable requirements, which could require further adjustments by the Group (and, in particular, the Issuer and/or RAL) in the future. In addition, there is the risk that part or all of the Group (in particular, the Issuer and/or RAL) may be found not to be compliant with the new regulations, or that the implementation programmes require excessive amounts of management time and attention with the consequential negative effects on the Group's business, results of operations and financial position. A failure by the Group to implement the measures required by Solvency II in a timely manner could also lead to regulatory action, which could have a material adverse effect on the Group's business, results of operations and financial position. In addition, there is a risk that the effect of the measures adopted may place the Group at a competitive disadvantage to other European and non-European insurers financial services groups.

The Issuer and RAL have applied to the PRA and the FCA for permission to use what is known as a "matching adjustment" for the majority of its single premium insurance business. Given that the matching adjustment requirements have only recently been introduced, the interpretation of such requirements is subject to a degree of uncertainty. Further details regarding the matching adjustment are provided in "*Description of the Issuer and the Group – Transition to Solvency II*". Management is confident that its matching adjustment submission will be accepted by the PRA without material changes. However, if the

matching adjustment application is not approved by the PRA and the FCA or significant amendments are required to the matching adjustment, the Issuer and RAL may need to restructure their investment portfolios and/or risk profile. This may result in the Issuer and RAL facing increased costs and may affect the Group's business, results of operations and financial position.

The Group continues to engage closely with the PRA in order to gain further clarification of the remaining areas of uncertainty in the application of the Solvency II requirements.

Inconsistent application of Directives in relation to Solvency II by regulators in different EU Member States may place the Group at a competitive disadvantage to other European insurers

Insurance regulation in the UK reflects the minimum requirements of current EU Insurance Directives, with an additional UK-specific overlay. When Solvency II is implemented, nation-specific rules (sometimes referred to as "gold-plated" or "super-equivalent" rules) will generally be replaced by harmonised rules. Nevertheless, inconsistent application of Solvency II by regulators in different EU Member States (and other EEA jurisdictions), and the gold-plating that is permitted under the current EU Insurance Directives, may place the Group's business at a competitive disadvantage to other European insurers.

A change of law or regulation or changes in the interpretation or operation of existing legislation, regulation or policies may adversely affect the Group's business, results of operations and financial position

The Group and its subsidiaries conduct their business subject to regulation and associated legal and regulatory risks. However, the Group and its subsidiaries will not always be able to predict the impact of future legislation or regulation or changes in the interpretation or operation of existing legislation (including tax), regulation or government policy, on its business, results of operations and financial position. Changes in legislation (including tax), regulation or government policy applying to companies in the financial services and insurance industries in any of the markets in which the Group operates (which may be applied retrospectively) may have an adverse impact on the Group's capital requirements, product range or distribution channels and/or its ability to meet its obligations in respect of the Notes. As a result, the Group's business, results of operations and financial position may be adversely affected. The Group's business, results of operations and financial position may also be adversely affected by any uncertainty created in the market in which the Group operates as a result of changes in the attitudes of government towards such legislation or regulations, as well as any proposals for reforms by governments or regulators that may affect, or are perceived to affect, the Group.

Additionally, regulators in jurisdictions in which the Group operates may change the level of capital required to be held by the Group or could introduce possible changes in the regulatory framework for pension arrangements and policies, as well as the regulation of selling practices and solvency requirements. Furthermore, as a result of interventions by governments in response to recent financial and global economic conditions, it is generally expected that there will continue to be a substantial increase in government regulation and supervision of the financial services and insurance industries, including restrictions on certain types of transaction structures and enhanced supervisory powers.

The Group and/or its subsidiaries may also face increased compliance costs due to the need to establish additional compliance procedures and controls because of changes to insurance and/or financial services legislation or regulations.

As noted above, the Group's business involves the sale and purchase of bulk annuities. It may experience a decreased demand for individual annuities in the UK due to specific changes in the law and regulations that affect this type of financial product. On 19 March 2014, the UK government announced in its 2014 budget the intention to introduce legislation that gives retirees more flexibility for accessing defined contribution pensions at retirement, which has caused disruption in the market in which the Group operates. Historically, it was a requirement for the benefits of defined contribution pensions to be converted to an individual annuity by the time that a policyholder reached age 75 and such pensions contracts offered a tax-efficient method of saving for retirement. Under the new system prescribed by the Occupational Pension Schemes (Charges and Governance) Regulations 2015, consumers approaching retirement have the freedom to take their whole

pension savings as cash (the first 25 per cent. remaining tax free, with the balance taxed at the individual's marginal rate), which will remove the compulsion for customers to buy an annuity. The main changes were implemented in April 2015 and sales of individual annuities in the UK have already been adversely impacted. Despite this, the impact on the bulk annuity sector has been negligible to date. However, at this stage, it remains too early to assess the full impact of these changes on the Group, including the extent to which these impacts can be mitigated by substitution of annuity sales with alternative business offered or being developed by the Group. Accordingly, there is a risk that the reforms may have an adverse impact on the Group's business, results of operations and financial position.

ComFrame is being developed by the International Association of Insurance Supervisors ("**IAIS**") to provide common global requirements for the supervision of insurance groups. The framework is designed to outline a set of common global principles and standards for group supervision and may increase the focus of regulators in some jurisdictions. One of the framework's key components is an insurance capital standard, which would form part of the Group's solvency capital standard under ComFrame. In May 2014, the IAIS published a memorandum setting out the approach to the development of the Insurance Capital Standard. The three-year development phase of ComFrame ended in December 2013 and IAIS is now undertaking a field testing exercise until 2018 to assess the impact of the quantitative and qualitative requirements proposed under ComFrame, with the expectation that it will be implemented in 2019. The extent of the impact that ComFrame may have on the Group's business, financial position or results of operations is presently unclear.

Where larger groups or matters of public policy are concerned, the PRA and the FCA may intervene directly to provide redress to customers. The Group may also be subject to the operation of certain investor compensation schemes that require mandatory contributions from market participants, in some instances in the event of a failure of a market participant. As a participant in the insurance market, circumstances could arise where the Group (along with other insurance companies) may be required to make such contributions, which may impact on the Group's reputation as well as its business, results of operations and financial position.

The Issuer and RAL have exercised their passporting rights under Directive 2002/83/EC of the European Parliament and the European Council passed on 5 November 2002, as amended (the "**Life Assurance Consolidation Directive**") in order to conduct business on a cross-border basis into various EEA jurisdictions. Failure to comply with any relevant laws or regulations overseas may lead to the local regulators exercising their disciplinary powers against the Group, the Issuer and/or RAL, which could have a negative impact on perceptions of the Group's business or have a material adverse impact on the Group's business, results of operations and financial position.

The Group is subject to the FCA's TCF principles, which are central to the FCA's regulatory approach

There is a clear focus in the UK on the fair treatment of customers, in particular on the way in which the insurance industry sells and administers insurance policies and other products. This aligns with the FCA's operational objective, as established by FSMA, to secure the appropriate degree of protection for consumers. The FCA's treating customers fairly ("**TCF**") regime was implemented by the Financial Services Authority ("**FSA**"). It requires the Group to have due regard to the interests of its customers in the conduct of its business, with an overriding requirement to treat them fairly. This requirement exists alongside other, more specific, rules contained in the prudential regime and is increasingly being seen by the FCA and authorised insurance companies as governing all aspects of an insurance company's dealings with its customers. The meaning of the duty has not been defined beyond the ordinary English meaning of the word "fair", although the FCA has published examples of what in its view constitutes fair treatment in a series of case studies.

In addition, the FCA's regulatory approach is also underpinned by a strong conduct risk agenda. In particular, the FCA has made clear that it is determined to create a culture of good conduct at every level of the financial services industry to make markets work well and to produce a fair deal for customers. The FCA therefore expects all firms to have a strong conduct risk framework in place to facilitate a culture that delivers good outcomes both for consumers and the market as a whole.

The FCA's key aim in relation to conduct risk is to ensure that firms do the right thing for their customers while keeping them, and the integrity of the markets in which they operate, at the heart of everything that

they do. Firms should seek to promote good behaviour across all aspects of their organisation and to develop a culture in which it is clear that there is no room for misconduct.

Any determination by the FCA that the Group is failing to respect, and pay due regard to, the interests of its policyholders could lead to enforcement action against the Group, which could have a material adverse effect on the Group's reputation and therefore its business, results of operations and financial position. The Group has a TCF Committee in place to monitor such risks and ensure they are escalated to the appropriate personnel within the Group.

The Group is subject to competition and consumer protection legislation, a failure to comply with which could result in the imposition of fines or sanctions on the Group or a requirement to make significant changes to the Group's business model

The Group is required to comply with competition laws and regulations, including those relating to consumer protection (such as consumer credit), enforced by the UK Competition and Markets Authority ("**CMA**"), the FCA and the European Commission. The competition laws and regulations applicable to the Group relate to matters such as price fixing, collusion and other forms of anti-competitive behaviour. The FCA is also concerned with the promotion of competition in the UK.

A determination that the Group has failed to comply with any applicable laws and/or regulations relating to matters of competition or consumer protection, or any regulatory action in respect thereof, could result in fines and losses, as well as adverse publicity for the Group. This could have a material impact on the Group's reputation as well as its business, results of operations and financial position.

The resolution of several issues affecting the financial services industry could have a negative impact on the Group's reported results or on its relations with current and potential customers

The Group and its subsidiaries are, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally. These actions could involve a review of types of business sold in the past under acceptable market practices at the time, changes to the applicable tax regimes, and regulatory reviews on transactions, the Group's products and industry practices. Although such actions cannot be predicted, the results of such reviews could result in adverse publicity, as well as impact the Group's business, results of operations and financial position.

Changes to tax legislation could materially impact the Group's business and/or decisions of customers

Corporate and individual tax rules, including those relating to the insurance industry, are subject to change and any changes could have both a prospective and retrospective impact on the Group's business, results of operations and financial position. The introduction of new tax legislation, or amendments to existing tax rules or rates (individual or corporate), could materially impact the Group's business and the choices policyholders make with respect to the nature of their relationship with the Group and/or the Group's policies. Although the implications of any future changes in tax legislation or rules for the Group, its subsidiaries and/or policyholders cannot be predicted, specific changes to the taxation of insurance companies could have a material adverse effect on the Group's business, results of operations and financial position. In addition, significant tax disputes with tax authorities, and any change in the tax status of any member of the Group and/or their subsidiaries, or in taxation legislation or its scope or interpretation, could affect the Group's financial position and results of operations.

Changes to IFRS generally or specifically for insurance companies may have an adverse impact on the Group's business

Any changes or modification of International Financial Reporting Standards ("**IFRS**") or other accounting policies may require a change in the reporting of the Group's future results or a retrospective adjustment of reported results. The financial statements of the Issuer and RAL ("**RLL Consolidated Group**") for the 2014

1 The financial statements of the Issuer for the 2013 financial year were prepared in accordance with UK GAAP. The figures stated in this Prospectus for the 2013 financial year are been extracted from the financial statements of the RLL Consolidated Group for the 2014 financial year, in respect of which the relevant financial information for the 2013 financial year was prepared in accordance with IFRS applicable to the insurance industry.

financial year and 2015 half year (prepared on a consolidated basis) conform to the IFRS applicable to the insurance industry, as published by the International Accounting Standards Board ("**IASB**"), and by the EU.[1] The IASB introduced a framework that it described as "Phase I", which permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In July 2010, the IASB published its first exposure draft for its "Phase II" on insurance industry accounting, which would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to IFRS. It currently includes changes to the presentation and measurement of insurance contracts, which would also affect the effect of technical reserves and reinsurance on the value of insurance contracts. A revised exposure draft was issued in June 2013. The IASB is re-deliberating on the exposure draft proposals in light of comments by the insurance industry and other respondents. The proposals are still under discussion and the timing of the final proposals taking effect is uncertain. The final standard, once issued, is not likely to come into effect before 2018. It is presently unclear what impact the proposals outlined in Phase II may have on the Group if they become definitive standards under IFRS.

The Group and/or its subsidiaries may be subject to litigation, legal proceedings and/or regulatory investigations in the future (including investigation and intervention by the FCA and/or the PRA), which could have a material adverse effect on its business and results of operations

Since the financial crisis, the PRA and the FCA have increased their oversight of regulated and authorised entities and have adopted a more direct style of regulation, which means that PRA-authorised entities, and PRA and/or FCA regulated firms, including the Issuer and RAL, are facing increasing supervisory scrutiny. The PRA and the FCA have the power to take a range of investigative, disciplinary and enforcement actions, penalties for which can include public censure, restitution, fines and sanctions. The PRA and the FCA may also make enquiries of the firms which they regulate and require such firms to provide particular information or documents to them. The PRA and the FCA may take such action or make such enquiries in relation to aspects of the Group or its subsidiaries' business and operations, including its systems and controls, IT systems, capital requirements, outsourcing functions, capital adequacy and permitted investments. Regulatory action may be specific to individuals, the Group, its subsidiaries, or part of more general action in respect of firms that operate in the insurance or financial services industry. The Group maintains regular dialogue with its regulators to ensure compliance with applicable regulatory standards. In the normal course of its business, the Group is engaged in discussions with the PRA and FCA in relation to a range of business matters. There are currently no issues of material regulatory concern under discussion.

The Group and/or its subsidiaries may in the future be subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of business and operations that are specific to the Group or its subsidiaries, or that are common to companies that operate in its markets. Legal actions and disputes may arise under contracts, legislation and regulations (including tax) or from a course of conduct taken by the Group or its subsidiaries, and may be class actions. Although management considers that it has made appropriate provision for the costs of litigation and regulatory matters, without prejudice to the statement at paragraph 9 of the section "*General Information*", no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought by claimants or regulators, together with other sanctions that might be applicable and the inherent unpredictability of litigation and disputes, it is possible that an outcome could, from time to time, have an adverse effect on the Group's reputation, business, results of operations or financial position. However, it is not possible to predict the significance of any proceedings that may be brought against, or any investigations that may be conducted into, the Group or its subsidiaries, nor is it possible to predict with any degree of precision the financial impact of a successful claim, fine or penalty to which the Group or its subsidiaries may become subject.

While management considers that its systems, controls and operations are compliant with applicable regulations, given the growth of the Group's business since it was established, there is a risk that one or more regulators could consider that the Group or any of its subsidiaries have failed to fully comply with all relevant regulatory requirements or has not undertaken the appropriate corrective action required.

Factors which are material for the purpose of assessing the market risks associated with Notes

Risks relating to the structure of the Notes

The Issuer may redeem the Notes at par before maturity in certain circumstances, and an investor may not be able to reinvest the redemption proceeds at an effective a rate of return as that in respect of the Notes

The Notes may, subject as provided in Condition 6, be redeemed before the Maturity Date at the sole discretion of the Issuer (i) in the event of certain specified events relating to taxation, or (ii) at any time following a Capital Disqualification Event, in each case at their principal amount together with interest accrued but unpaid to (but excluding) the date of redemption and any Arrears of Interest.

The Issuer currently expects the Notes, upon the implementation of Solvency II, to qualify (subject to any applicable limitations on the amount of such capital) as Tier 2 Capital. However, there is a risk that, following any change to the Relevant Rules, the Notes will cease to qualify as Tier 2 Capital of the Issuer or all or any part of the Group (which part includes the Issuer and at least one other member of the Group), which would entitle the Issuer to redeem the Notes early at their principal amount, together with interest accrued but unpaid to (but excluding) the date of redemption and any Arrears of Interest.

The cash paid to investors upon such a redemption may be less than the then current market value of the Notes or the price at which investors purchased the Notes. Subject to the contractual and regulatory restrictions on doing so set out in the Conditions, the Issuer might be expected to redeem the Notes when its cost of borrowing for an instrument with a comparable regulatory capital treatment at the time is lower than the interest payable on them. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest payable on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in the light of other investments available at that time.

The Notes are unsecured and subordinated obligations of the Issuer. On a winding-up of the Issuer, investors in the Notes may lose their entire investment in the Notes

The Issuer's payment obligations under the Notes will be unsecured and will be subordinated (i) on a winding-up of the Issuer, and (ii) if an administrator is appointed to the Issuer and gives notice that it intends to declare and distribute a dividend and, in each case, will rank junior to the claims of all policyholders and other unsubordinated creditors of the Issuer and to claims in respect of any subordinated indebtedness of the Issuer other than indebtedness which ranks, or is expressed to rank, *pari passu* with or junior to the Notes. Accordingly, the assets of the Issuer would be applied first in satisfying all senior-ranking claims in full, and payments would be made to holders of the Notes, *pro rata* and proportionately with payments made to holders of any other *pari passu* instruments (if any), only if and to the extent that there are any assets remaining after satisfaction in full of all such senior-ranking claims. If the Issuer's assets are insufficient to meet all its obligations to senior-ranking and Pari Passu Creditors, the holders of the Notes will lose all or some of their investment in the Notes.

There is no restriction on the amount of securities which the Issuer may issue and which rank senior to, or *pari passu* with, the Notes and, accordingly, the Issuer may at any time incur further obligations (including by issue of further debt securities) which rank senior to, or *pari passu* with, the Notes. Consequently, there can be no assurance that the current level of senior or *pari passu* debt of the Issuer will not change. The issue of any such securities may reduce the amount (if any) recoverable by Noteholders on a winding-up of the Issuer.

If the Issuer's financial position deteriorates such that there is an increased risk that the Issuer may be wound up or enter into administration, such circumstances can be expected to have a material adverse effect on the market price of the Notes. Investors in the Notes may find it difficult to sell their Notes in such circumstances, or may only be able to sell their Notes at a price that may be significantly lower than the price at which they purchased their Notes. In such a sale, investors may lose some or substantially all of their investment in the Notes, whether or not the Issuer is wound up or enters into administration.

Although the Notes may pay a higher rate of interest than comparable notes that are not subordinated, there is a material risk that an investor in the Notes will lose all or some of its investment should the Issuer become insolvent.

Payments of interest on, and redemption of, the Notes must, under certain circumstances, be deferred by the Issuer

The payment obligations of the Issuer under the Notes are conditional upon (i) there being no breach of the Solvency Condition (as described in Condition 2(b)) at the time of such payment and no such breach occurring as a result of such payment, (ii) in the case of the payment of interest, there being no Regulatory Deficiency Interest Deferral Event at the time of such payment and no such event occurring as a result of such payment, and (iii) in the case of the redemption of the Notes, there being no Regulatory Deficiency Redemption Deferral Event at the time of such payment and no such event occurring as a result of such payment and (if then required) regulatory consent or non-objection having been obtained and such redemption being made in compliance with the Relevant Rules at such time. Any amounts of principal, interest, Arrears of Interest and any other amounts in respect of the Notes which cannot be paid on the scheduled payment date by virtue of such provisions must be deferred by the Issuer and non-payment of the amounts so deferred shall not constitute a default under the Notes or the Trust Deed for any purpose, including enforcement action against the Issuer.

Any interest in respect of the Notes so deferred will, so long as the same remains unpaid, constitute Arrears of Interest. Arrears of Interest will not themselves bear interest. The holders of the Notes have no right to require payment of Arrears of Interest, and Arrears of Interest will become payable only at the discretion of the Issuer or upon the earliest of the dates set out in Conditions 5(c)(i) to 5(c)(iii).

If redemption of the Notes is deferred, the Notes will only become due for redemption in the circumstances described in Conditions 6(a)(i), 6(a)(iv) and 6(a)(v).

The circumstances in which a Regulatory Deficiency Interest Deferral Event or a Regulatory Deficiency Redemption Deferral Event may occur are dependent upon the solvency position of the Issuer, the Group and the insurance undertakings within the Group from time to time under the other requirements of Solvency II and/or the Relevant Rules, which themselves may be subject to amendment or change from time to time. Events which constitute a Regulatory Deficiency Interest Deferral Event or a Regulatory Deficiency Redemption Deferral Event could include, without limitation, any event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, all or part of the Group (which part includes the Issuer and at least one other member of the Group) or any insurance undertaking within the Group to be breached and (in respect of a Regulatory Deficiency Redemption Deferral Event only) the winding-up or administration of any insurance undertaking within the Group where the claims of the policyholders of such insurance undertaking may or will not be met, in each case, where such event is an event which under Solvency II and/or the Relevant Rules means that the Issuer must defer payments on the Notes in order that the Notes qualify as Tier 2 Capital under Solvency II and any other Relevant Rules.

Any actual or anticipated deferral of interest or redemption can be expected to have a material adverse effect on the market price of the Notes. Investors in the Notes may find it difficult to sell their Notes in such circumstances, or may only be able to sell their Notes at a price that may be significantly lower than the price at which they purchased their Notes. In such a sale, investors may lose some or substantially all of their investment in the Notes. In addition, as a result of the deferral provisions of the Notes, the market price of the Notes may be more volatile than the market prices of other securities or instruments that do not require deferral of interest or principal, and may be more sensitive generally to adverse changes in the Issuer's financial position.

The terms of the Notes may be modified, or the Notes may be substituted, by the Issuer without the consent of the Noteholders in certain circumstances, subject to certain restrictions

In the event of certain specified events relating to taxation or the Notes ceasing to qualify as Tier 2 Capital of the Issuer, the Issuer may (subject to certain conditions) at any time substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become (in the case of events relating to

taxation or a Capital Disqualification Event), Qualifying Dated Tier 2 Securities, without the consent of the Noteholders.

Qualifying Dated Tier 2 Securities must, among other things, have terms not materially less favourable to an investor than the terms of the Notes, as reasonably determined by the Issuer in consultation with an independent investment bank or financial adviser of international standing (which, in either case, is independent of the Issuer). However, there can be no assurance that, due to the particular circumstances of a Holder of Notes, such Qualifying Dated Tier 2 Securities will be as favourable to a particular investor in all respects or that, if it were entitled to do so, a particular investor would make the same determination as the Issuer as to whether the terms of the Qualifying Dated Tier 2 Securities are not materially less favourable to holders than the terms of the Notes.

The terms of the Notes may be modified with the consent of specified majorities of the Noteholders at a duly convened meeting, and the Trustee may consent to certain modifications to the Notes, or substitution of the Issuer, without the consent of the Noteholders

The Trust Deed constituting the Notes contains provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Trust Deed constituting the Notes also provides that, subject to the prior consent of the Relevant Regulator being obtained (to the extent that such consent is required), the Trustee may (except as set out in the Trust Deed), without the consent of Noteholders, agree to certain modifications of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or to the substitution of another company as principal debtor under the Notes in place of the Issuer in the circumstances described in Condition 11.

Restricted remedy for non-payment when due

In accordance with the current requirements for Tier 2 Capital, the sole remedy against the Issuer available to the Trustee or (where the Trustee has failed to proceed against the Issuer as provided in the Conditions) any Noteholder for recovery of amounts which have become due in respect of the Notes will be the institution of proceedings for the winding-up of the Issuer and/or proving in such winding-up or administration and/or claiming in the liquidation of the Issuer. In particular, a deferral of payments as described in the section "*Payments of interest on, and redemption of, the Notes must, under certain circumstances, be deferred by the Issuer*" shall not constitute a default under the Notes or the Trust Deed for any purpose, including enforcement action against the Issuer.

Risks relating to the Notes generally

EU Savings Directive

European Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**") requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or secured by such a person for the benefit of) an individual resident, or to (or secured for) certain other types of entity established, in that other EU Member State, except that Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld), unless during such period it elects otherwise. Luxembourg, which before 1 January 2015 also operated a withholding tax under the transitional rules, has now replaced such withholding tax with the information reporting regime described above. The ending of such transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries.

A number of non-EU countries and territories have adopted similar measures.

The Council of the European Union has adopted a Directive (the "**Amending Savings Directive**") which would, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above, including by expanding the range of payments covered by the Savings Directive, in

particular, to include additional types of income payable on securities, and by expanding the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or secured for) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Savings Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

The European Commission has published a proposal for a Council Directive repealing the Savings Directive from 1 January 2016 (1 January 2017 in the case of Austria) (in each case, subject to transitional arrangements). The proposal also provides that, if it is adopted, EU Member States will not be required to implement the Amending Savings Directive.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive (as amended from time to time) or any other Directive implementing the conclusions of the Economic and Financial Affairs ("**ECOFIN**") Council meeting of 26 to 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay Additional Amounts with respect to any Note as a result of the imposition of such withholding tax. Furthermore, if the Amending Savings Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above.

The Issuer is required to maintain a Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 to 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive. However, investors should be aware that any custodians or intermediaries through which they hold their interest in the Notes may nonetheless be obliged to withhold or deduct tax pursuant to such laws unless the investor meets certain conditions, including providing any information that may be necessary to enable such persons to make payments free from withholding and in compliance with the Savings Directive, as amended.

Investors who are in any doubt as to their position or would like to know more should consult their professional advisers.

Change of law

The Conditions are based on English law and regulation in effect as at the date of issue of the Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law, regulation or administrative practice after the date of issue of the Notes.

Integral multiples of less than £100,000

The denomination of the Notes is £100,000 and integral multiples of £1,000 in excess thereof. Accordingly, it is possible that the Notes may be traded in the Clearing Systems in amounts in excess of £100,000 that are not integral multiples of £100,000. Should definitive Notes be required to be issued, they will be issued in principal amounts of £100,000 and higher integral multiples of £1,000 but will in no circumstances be issued to Noteholders who hold Notes in the Relevant Clearing System in amounts that are less than £100,000.

If definitive Notes are issued, Noteholders should be aware that definitive Notes which have a denomination that is not an integral multiple of £100,000 may be illiquid and difficult to trade.

Risks related to the market generally

Set out below is a description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk, associated with the Notes.

The secondary market generally

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable with similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies, or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have an adverse effect on the market value of Notes.

In addition, the Notes will be unrated on issue, and the Group does not expect to seek a credit rating for the Notes at any time, which may limit the liquidity of the Notes in the secondary market. Investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market and/or which are rated. Illiquidity may have a severely adverse effect on the market value of the Notes.

If the Group's financial position deteriorates such that there is an increased risk that the Group may be wound up or enter into administration, or if at any time there is any actual or anticipated deferral of interest or redemption in accordance with the Conditions, such circumstances can be expected to have a material adverse effect on the market price of the Notes. Investors in the Notes may find it difficult to sell their Notes in such circumstances, or may only be able to sell their Notes at a price which may be significantly lower than the price at which they purchased their Notes. In such a sale, investors may lose some or substantially all of their investment in the Notes.

Exchange rate risks and exchange controls

The Group will pay principal and interest on the Notes in sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency unit other than sterling (an "**Investor's Currency**"). These include the risk that exchange rates may significantly change (including changes due to devaluation of sterling or revaluation of the Investor's Currency), which adversely affects the value of its other holding and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls in relation to any Notes which could result in an investor not receiving payments on those Notes.

The Issuer will also pay principal and interest on the Notes in sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in an Investor's Currency rather than sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of sterling or revaluation of an Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of an Investor's Currency relative to sterling would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes, and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Notes, which bear a fixed rate of interest, involves the risk that subsequent increases in market interest rates may adversely affect the market value of them.

Fixed rate notes are exposed to specific market risks

A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (the "**Market Interest Rate**"). Given the long maturity of the Notes, potential movements in the Market Interest Rate over the life of the Notes are difficult to predict. While the nominal rate of a security with a fixed interest rate is fixed for a specified period, the Market Interest Rate typically changes on a daily basis. As the Market Interest Rate changes, the price of such security is likely to change in the opposite direction. If the Market Interest Rate increases, the price of such security typically falls, until the yield of such security is approximately equal to the Market Interest Rate. If the Market Interest Rate falls, the price of a security with a fixed compensation rate typically increases, until the yield of such security is approximately equal to the Market Interest Rate. Investors should be aware that movements of the Market Interest Rate can adversely affect the price of the Notes and can lead to losses for the Noteholders if they sell the Notes.

Investors may have to rely on the procedures of Euroclear and Clearstream, Luxembourg for transfer, payment and communication with the Issuer

The Notes will be represented by a Global Certificate (as defined in the Trust Deed). The Global Certificate will be deposited with a Common Depositary for, and registered in the name of the common nominee of, Euroclear and Clearstream, Luxembourg. Except in the limited circumstances described in the Global Certificate, investors will not be entitled to receive definitive registered notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate.

While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg. The Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in a Global Certificate must rely on the procedures of Euroclear or Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Risks relating to the U.S. Foreign Account Tax Compliance Withholding

While the Notes are in global form and held within Euroclear and Clearstream, Luxembourg (together, the "**ICSDs**"), in all but the most remote circumstances, it is not expected that the new reporting regime and potential withholding tax imposed by Sections 1471 to 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") will affect the amount of any payment received by the ICSDs (see the section headed "*Taxation – FATCA Withholding*"). Further, non-U.S. financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the U.S. (an "**IGA**") are generally not expected to be required to withhold tax under FATCA or an IGA (or any law implementing an IGA) from payments they make on securities such as the Notes. However, if FATCA withholding were relevant with respect to payment on the Notes, FACTA could affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also could affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA, including any legislation implementing intergovernmental agreement relating to FATCA, if applicable), and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Notes are discharged once it has paid the Common Depositary for the ICSDs (as bearer of the Notes) and the Issuer, therefore, has no responsibility for any amount thereafter transmitted through the hands of the ICSDs and custodians or intermediaries.

SUPPLEMENTAL PROSPECTUS

Following the publication of this Prospectus, a supplement may be prepared by Rothesay Life Limited and approved by the Central Bank of Ireland in accordance with Article 16 of the Prospectus Directive.

Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute part of this Prospectus.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus prior to the Issue Date which is capable of affecting the assessment of the Notes, prepare a supplement to this Prospectus. The Issuer has undertaken to the Joint Lead Managers that it will comply with section 87G of the FSMA.

TERMS AND CONDITIONS OF THE NOTES

The following, subject to alteration and completion, are the terms and conditions of the Notes which will be endorsed on each Certificate in definitive form (if issued).

The issue of the £250,000,000 8.00 per cent. Subordinated Notes due 2025 (the "**Notes**") of Rothesay Life Limited (the "**Issuer**") was authorised by a resolution of the board of Directors of the Issuer passed on 9 September 2015. The Notes are constituted by a trust deed (the "**Trust Deed**") dated 30 October 2015 between the Issuer and Citicorp Trustee Company Limited (the person or persons for the time being the trustee or trustees under the Trust Deed, the "**Trustee**") as trustee for the Holders of the Notes. These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Notes. Copies of the Trust Deed and of the agency agreement (the "**Agency Agreement**") dated 30 October 2015 relating to the Notes between the Issuer, Citibank N.A., London Branch as the initial principal paying agent (the person for the time being the principal paying agent under the Agency Agreement, the "**Principal Paying Agent**"), Citibank N.A., London Branch as the initial registrar (the person for the time being the registrar under the Agency Agreement, the "**Registrar**"), the initial transfer agents named therein (the person(s) for the time being the transfer agent(s) under the Agency Agreement, the "**Transfer Agent(s)**") and the Trustee are available for inspection during usual business hours at the principal office of the Principal Paying Agent (presently at Citigroup Centre, 13th Floor, 25 Canada Square, London E14 5LB, United Kingdom) and at the specified offices of the Registrar and each of the Transfer Agents. The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

1 Form and Denomination

The Notes are issued in registered form, in the denominations of £100,000 and integral multiples of £1,000 in excess thereof (each an "**Authorised Denomination**").

A certificate (each a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

2 Status

(a) *Ranking*

The Notes constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. In the event of the winding-up of the Issuer (other than an Approved Winding-up) or the appointment of an administrator of the Issuer where the administrator has given notice that it intends to declare and distribute a dividend, the rights and claims of the Noteholders (and the Trustee on their behalf) against the Issuer in respect of, or arising under, each Note shall be for (in lieu of any other payment by the Issuer) an amount equal to the principal amount of the relevant Note, together with, to the extent not otherwise included within the foregoing, any other amounts attributable to such Note, including any Arrears of Interest, any other accrued and unpaid interest and any damages awarded for breach of any obligations in respect of such Note, provided, however, that such rights and claims shall be subordinated in the manner provided in the Trust Deed to the claims of all Senior Creditors of the Issuer, but shall rank (i) at least *pari passu* with all other subordinated obligations of the Issuer which constitute, and all claims relating to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Issuer in respect of any obligations of any other person which constitute, or (in either case) would but for any applicable limitation on the amount of such capital constitute, Lower Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 2 Capital (issued on or after Solvency II Implementation) and all obligations which rank, or are expressed to rank, *pari passu* therewith ("***Pari Passu* Securities**"), and (ii) in priority to the claims of holders of: (a) all obligations of the Issuer which constitute, and all claims relating to a guarantee or other like or similar

undertaking or arrangement given or undertaken by the Issuer in respect of any obligations of any other person which constitute, or (in either case) would but for any applicable limitation on the amount of such capital constitute, Tier 1 Capital or Upper Tier 2 Capital (issued prior to Solvency II Implementation) and all obligations which rank, or are expressed to rank, *pari passu* therewith (including, without limitation, by virtue of the operation of any grandfathering provisions under any Relevant Rules); and (b) all classes of share capital of the Issuer.

(b) ***Solvency Condition***

Without prejudice to Condition 2(a), all payments under or arising from the Notes and the Trust Deed (other than payments made to the Trustee for its own account under the Trust Deed) shall be conditional upon the Issuer being solvent at the time for payment by the Issuer, and no amount shall be payable under or arising from the Notes or the Trust Deed unless and until the Issuer could make such payment and still be solvent immediately thereafter (the "**Solvency Condition**"). Any payment which is not paid due to operation of the Solvency Condition will be deferred as further provided in Condition 5(c) or Condition 6(a) as the case may be.

For the purposes of this Condition 2(b), the Issuer will be "**solvent**" if (i) it is able to pay its debts owed to Senior Creditors and *Pari Passu* Creditors as they fall due, and (ii) its Assets exceed its Liabilities.

A certificate as to the solvency of the Issuer signed by two Directors or, if there is a winding-up or administration of the Issuer, by two Directors or authorised signatories of the liquidator or, as the case may be, the administrator of the Issuer shall be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without further enquiry and without liability to any person.

The Issuer shall notify the Trustee, the Registrar and the Principal Paying Agent in writing and notify the Noteholders in accordance with Condition 16 as soon as reasonably practicable after it has determined that any payment (in whole or in part) will be deferred due to the operation of the Solvency Condition (provided that, for the avoidance of doubt, any delay in giving such notice shall not result in such payment becoming due on the scheduled payment date).

(c) ***Set-off, etc.***

Subject to applicable law, no Noteholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Notes and each Noteholder shall, by virtue of being the Holder of any Note, be deemed, to the extent permitted by law, to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Noteholder by the Issuer is discharged by set-off, such Noteholder shall, unless such payment is prohibited by applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of its winding-up or administration, the liquidator or administrator, as appropriate, of the Issuer for payment to the Senior Creditors in respect of amounts owing to them by the Issuer, and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer, or the liquidator or administrator, as appropriate, of the Issuer (as the case may be), for payment to the Senior Creditors in respect of amounts owing to them by the Issuer and, accordingly, any such discharge shall be deemed not to have taken place.

As used in this Condition 2, the expression "**obligations**" includes any direct or indirect obligations of the Issuer and whether by way of guarantee, indemnity, other contractual support arrangement or otherwise and regardless of name or designation.

(d) ***The Trustee***

The provisions of Condition 2(b) apply only to the principal and interest and any other amounts payable in respect of the Notes and nothing in Condition 2(b) or in Conditions 5, 6 or 10 shall

affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

The Trustee shall have no responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with any non-payment of interest, principal or other amounts by reason of Condition 2(b), Condition 5(c) or Condition 6(a). Furthermore, the Trustee shall not be responsible for any calculation or the verification of any calculation in connection with any of the foregoing.

3 Register, Title and Transfers

(a) ***Register***

The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof), and "**Noteholder**" shall be construed accordingly.

(b) ***Title***

The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder.

(c) ***Transfers***

Subject to Conditions 3(f) and 3(g), a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(d) ***Registration and delivery of Note Certificates***

Within five business days of the surrender of a Note Certificate in accordance with Condition 3(c), the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its specified office or (as the case may be) the specified office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its specified office.

(e) ***No charge***

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) ***Closed periods***

Noteholders may not require transfers to be registered (i) during the period of 15 days ending on the due date for any payment of principal in respect of the Notes or ending on any Record Date, (ii) after the Notes have been called for redemption, and (iii) during the period following delivery of a notice of a payment of Arrears of Interest in accordance with Condition 5(c) and Condition 16 and ending on the date referred to in such notice as having been fixed for such payment of Arrears of Interest.

(g) ***Regulations concerning transfers and registration***

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests, in writing, a copy of such regulations.

4 Interest

(a) ***Interest Rate and Interest Payment Dates***

Each Note bears interest on its outstanding principal amount from (and including) the Issue Date at 8.00 per cent. per annum in accordance with these Conditions.

Subject to Condition 2(b) and Condition 5, interest shall be payable on the Notes annually in arrear on each Interest Payment Date.

(b) ***Interest Accrual***

Each Note will cease to bear interest from (and including) its due date for redemption pursuant to Condition 6, or the date of substitution thereof pursuant to Condition 6(c)(ii) or 6(d)(ii), as the case may be, unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in these Conditions.

(c) ***Calculation of Interest***

Where it is necessary to compute an amount of interest in respect of any Note for a period which is less than a complete year, the relevant day-count fraction shall be determined on the basis of the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the year in which the relevant period falls (including the first such day but excluding the last).

The amount of interest which (subject to Condition 2(b) and Condition 5) shall be payable in respect of each Calculation Amount on each Interest Payment Date will be £80.00.

Interest in respect of any Note shall be calculated per Calculation Amount and shall be equal to the product of the Calculation Amount, 8.00 per cent. and the day-count fraction as described above in this Condition 4(c) for the relevant period, rounding the resultant figure to the nearest penny (half a penny being rounded upwards). Where the denomination of a Note is more than the Calculation Amount, the amount of interest payable in respect of such Note is the aggregate of the amounts (calculated as aforesaid) for each Calculation Amount comprising the denomination of the Note.

5 Deferral of Payments

(a) ***Mandatory Deferral of Interest***

Payment of interest on the Notes will be mandatorily deferred on each Mandatory Interest Deferral Date. The Issuer shall notify the Trustee, the Registrar and the Principal Paying Agent in writing and notify the Noteholders in accordance with Condition 16 no later than five Business Days prior to an Interest Payment Date (or as soon as reasonably practicable if a Regulatory Deficiency Interest Deferral Event occurs less than five Business Days prior to an Interest Payment Date) if a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or if a Regulatory Deficiency Interest Deferral Event would occur on the Interest Payment Date if payment of interest was made (provided that, for the avoidance of doubt, any delay in giving such notice shall not result in such interest becoming due and payable on the relevant Mandatory Interest Deferral Date).

A certificate signed by two Directors confirming that (i) a Regulatory Deficiency Interest Deferral Event has occurred and is continuing, or would occur if payment of interest on the Notes were to be made, or (ii) a Regulatory Deficiency Interest Deferral Event has ceased to occur and/or payment of interest on the Notes would not result in a Regulatory Deficiency Interest Deferral Event occurring, may be treated and accepted by the Trustee (and, if so treated and accepted by the Trustee, shall be so treated and accepted by the Noteholders and all other interested parties) as correct and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without liability to any person.

(b) ***No default***

Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of any payment of interest in accordance with this Condition 5 or in accordance with Condition 2(b) will not constitute a default by the Issuer and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes or take any other action under the Notes or the Trust Deed.

(c) ***Arrears of Interest***

Any interest in respect of the Notes not paid on an Interest Payment Date as a result of (i) the obligation on the Issuer to defer such payment of interest pursuant to Condition 5(a), or (ii) the operation of the Solvency Condition contained in Condition 2(b), together with any other interest in respect of the Notes not paid on an earlier Interest Payment Date shall, so long as the same remains unpaid, constitute "**Arrears of Interest**". Arrears of Interest shall not themselves bear interest.

Any Arrears of Interest may (subject to Condition 2(b) and (to the extent then required by the Relevant Regulator or the Relevant Rules) to any notifications to, or consent or non-objection from, the Relevant Regulator) be paid in whole but not in part at any time at the election of the Issuer (provided that at such time a Regulatory Deficiency Interest Deferral Event is not subsisting and would not occur if payment of such Arrears of Interest was made) upon the expiry of not less than 14 days' notice to such effect given by the Issuer to the Trustee, the Registrar and the Principal Paying Agent in writing and to the Noteholders in accordance with Condition 16, and in any event all Arrears of Interest will become due and payable (subject, in the case of Conditions 5(c)(i) and 5(c)(iii), to Condition 2(b) and (to the extent then required by the Relevant Regulator or the Relevant Rules) any notifications to, or consent or non-objection from, the Relevant Regulator) upon the earliest of the following dates:

(i) the next Interest Payment Date which is not a Mandatory Interest Deferral Date and on which a scheduled payment of interest in respect of the Notes (or any part thereof) is made or is required to be made pursuant to these Conditions (other than a voluntary payment of Arrears of Interest); or

(ii) the date on which an order is made or a resolution is passed for the winding-up of the Issuer (other than an Approved Winding-up) or the date on which any administrator of the Issuer gives notice that it intends to declare and distribute a dividend; or

(iii) the date of any redemption or purchase of Notes by or on behalf of the Issuer or any of its Subsidiaries pursuant to Condition 6 (subject to the deferral of such redemption pursuant to Condition 2(b) or Condition 6(a)).

The Issuer shall, as soon as reasonably practicable, notify the Trustee, the Registrar and the Principal Paying Agent in writing and notify the Noteholders in accordance with Condition 16 of any payment of Arrears of Interest made in accordance with Conditions 5(c)(i) or 5(c)(iii).

6 Redemption, Substitution, Variation, Purchase and Options

(a) ***Redemption***

(i) Subject to Condition 2(b), Condition 6(a)(ii) and to compliance by the Issuer with regulatory rules, including (to the extent then required by the Relevant Regulator or the Relevant Rules) on notification to, or consent or non-objection from, the Relevant Regulator, and provided that such redemption is permitted under the Relevant Rules applicable from time to time to the Issuer (on the basis that the Notes are intended to qualify as Tier 2 Capital under Solvency II and the Relevant Rules), unless previously redeemed or purchased and cancelled as provided below, each Note shall be redeemed on the Maturity Date at its principal amount together with Arrears of Interest, if any, and any other accrued and unpaid interest thereon to (but excluding) the Maturity Date.

(ii) No Notes shall be redeemed on the Maturity Date pursuant to Condition 6(a)(i) or prior to the Maturity Date pursuant to Condition 6(c) or 6(d) if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if redemption is made on, if Condition 6(a)(i) applies, the Maturity Date or, if Condition 6(c) or 6(d) applies, the applicable date specified for redemption in accordance with such Conditions.

(iii) If the Notes are not to be redeemed on the Maturity Date pursuant to Condition 6(a)(i) or on any scheduled redemption date pursuant to Condition 6(c) or 6(d) as a result of circumstances where:

(A) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were redeemed on such date;

(B) the Solvency Condition is not or would not be satisfied on such date and immediately after the redemption; or

(C) the Relevant Regulator does not consent to the redemption (to the extent that consent is then required by the Relevant Regulator or the Relevant Rules) or the Relevant Regulator objects to the redemption or such redemption otherwise cannot be effected in compliance with the Relevant Rules on such date,

the Issuer shall notify the Trustee, the Registrar and the Principal Paying Agent in writing and notify the Noteholders in accordance with Condition 16 no later than five Business Days prior to the Maturity Date or the date specified for redemption in accordance with Condition 6(c) or 6(d), as applicable (or as soon as reasonably practicable if the relevant circumstance requiring redemption to be deferred arises, or is determined, less than five Business Days prior to the relevant redemption date).

(iv) If redemption of the Notes does not occur on the Maturity Date or, as appropriate, the date specified in the notice of redemption by the Issuer under Condition 6(c) or 6(d) as a result of Condition 6(a)(ii) or the Relevant Regulator does not consent to the redemption (to the extent that consent is then required by the Relevant Regulator or the Relevant Rules) or the Relevant Regulator objects to the redemption or such redemption

otherwise cannot be effected in compliance with the Relevant Rules on such date, subject (in the case of Condition 6(a)(iv)(A) and Condition 6(a)(iv)(B) only) to Condition 2(b) and (to the extent then required by the Relevant Regulator or the Relevant Rules) to any notifications to, or consent or non-objection from, the Relevant Regulator, such Notes shall be redeemed at their principal amount together with Arrears of Interest, if any, and any other accrued and unpaid interest thereon to (but excluding) the date of redemption, upon the earliest of:

(A) (in the case of a failure to redeem due to the operation of Condition 6(a)(ii) only) the date falling 10 Business Days after the date the Regulatory Deficiency Redemption Deferral Event has ceased (unless, on such tenth Business Day, a further Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or redemption of the Notes on such date would result in a Regulatory Deficiency Redemption Deferral Event occurring, in which case, the provisions of Condition 6(a)(ii), Condition 6(a)(iii) and this Condition 6(a)(iv) shall apply *mutatis mutandis* to determine the due date for redemption); or

(B) the date falling 10 Business Days after the Relevant Regulator has agreed to the repayment or redemption of the Notes; or

(C) the date on which an order is made or a resolution is passed for the winding-up of the Issuer (other than an Approved Winding-up) or the date on which any administrator of the Issuer gives notice that it intends to declare and distribute a dividend.

(v) If Condition 6(a)(ii) does not apply, but redemption of the Notes does not occur on the Maturity Date or, as appropriate, the date specified in the notice of redemption by the Issuer under Condition 6(c) or 6(d) as a result of the Solvency Condition not being satisfied at such time and immediately after such payment, subject (to the extent then required by the Relevant Regulator or the Relevant Rules) to any notifications to, or consent or non-objection from, the Relevant Regulator, such Notes shall be redeemed at their principal amount together with Arrears of Interest, if any, and any other accrued and unpaid interest thereon to (but excluding) the date of redemption, on the tenth Business Day immediately following the day that (a) the Issuer is solvent for the purposes of Condition 2(b), and (b) redemption of the Notes would not result in the Issuer ceasing to be solvent for the purposes of Condition 2(b), provided that, if, on such tenth Business Day specified for redemption, a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if the Notes were to be redeemed, or if the Solvency Condition would not be satisfied on such date and immediately after the redemption, then the Notes shall not be redeemed on such date and Condition 6(a)(ii), Condition 6(a)(iii) and Condition 6(a)(iv) (if such further deferral is due to a Regulatory Deficiency Redemption Deferral Event) or Condition 2(b) and this Condition 6(a)(v) (if such further deferral is due to the operation of the Solvency Condition) shall apply *mutatis mutandis* to determine the date of the redemption of the Notes.

(vi) A certificate signed by two Directors confirming that (a) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if redemption of the Notes were to be made, or (b) a Regulatory Deficiency Redemption Deferral Event has ceased to occur and/or redemption of the Notes would not result in a Regulatory Deficiency Redemption Deferral Event occurring, or (c) that any of the circumstances described in Condition 6(a)(iii)(B) or 6(a)(iii)(C) apply, may be treated and accepted by the Trustee (and, if so treated and accepted by the Trustee, shall be so treated and accepted by the Noteholders and all other interested parties) as correct and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without liability to any person.

(vii) Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of redemption of the Notes in accordance with Condition 2(b) or this Condition 6 will not constitute a default by the Issuer and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes or take any other action under the Notes or the Trust Deed.

(viii) In circumstances where redemption of the Notes has been deferred, the Issuer will notify the Trustee, the Registrar and the Principal Paying Agent in writing and notify the Noteholders in accordance with Condition 16 as soon as reasonably practicable after it has determined the relevant deferred date for redemption, and (if applicable) of any subsequent redemption deferrals and corresponding deferred dates for redemption.

(b) ***Conditions to Redemption, Substitution, Variation or Purchase***

Any redemption, substitution, variation or purchase of the Notes is subject to the Issuer having complied with all relevant legal or regulatory requirements, including (to the extent then required by the Relevant Regulator or the Relevant Rules) rules on notification to, or consent or non-objection from, the Relevant Regulator and being in continued compliance with the Regulatory Capital Requirements applicable to it at the relevant time and, in the case of a redemption or purchase that is within five years of the Issue Date of the Notes, to such redemption or purchase being funded (to the extent then required by the Relevant Regulator or the Relevant Rules) out of the proceeds of a new issuance of capital of at least the same quality as the Notes and being otherwise permitted under the Relevant Rules.

A certificate signed by two Directors confirming such compliance may be treated and accepted by the Trustee (and, if so treated and accepted by the Trustee, shall be so treated and accepted by the Noteholders and all other interested parties) as correct, conclusive and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without further enquiry and without liability to any person.

In the case of a redemption that is within five years of the Issue Date of the Notes, the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that it would have been reasonable for the Issuer to conclude, judged at the time of the issue of the Notes, that the circumstance entitling the Issuer to exercise the right of redemption was unlikely to occur. Such certificate may be treated and accepted by the Trustee (and, if so treated and accepted by the Trustee, shall be so treated and accepted by the Noteholders and all other interested parties) as correct, conclusive and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without further enquiry and without liability to any person.

(c) ***Redemption, Substitution or Variation at the Option of the Issuer Due to Taxation***

If immediately prior to the giving of the notice referred to below:

(i) as a result of a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the UK or any political subdivision or authority therein or thereof having the power to tax, including any treaty to which the UK is a party, or any change in the application or official interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions (in respect of securities similar to the Notes and which are capable of constituting Lower Tier 2 Capital under the rules applicable at issuance and are intended to constitute Tier 2 Capital following Solvency II Implementation), which change or amendment becomes, or would become, effective, or in the case of a change or proposed change in law if such change is enacted (or, in the case of a proposed change, is expected to be enacted) by UK Act of Parliament or by statutory instrument, on or after the Issue Date of the Notes (each a "**Tax Law Change**"), in making any payments on the Notes, the Issuer has paid or will, or would on the next payment date be required to pay, Additional

Amounts on the Notes and the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it; or

(ii) as a result of a Tax Law Change, in respect of the Issuer's obligation to make any payment of interest on the next following Interest Payment Date:

(A) the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the UK, or such entitlement is materially reduced; or

(B) the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable UK tax purposes (whether under the group relief system current as at the date of the Tax Law Change or any similar system or systems having like effect as may from time to time exist) and, in each such case, the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it,

then the Issuer may:

(x) subject to Condition 2(b), Condition 6(a)(ii) and Condition 6(b) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Registrar, the Principal Paying Agent and, in accordance with Condition 16, the Noteholders (which notice shall be irrevocable), redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with Arrears of Interest, if any, and any other accrued and unpaid interest thereon to (but excluding) the date of redemption in accordance with these Conditions; provided that, in the case of a Tax Law Change which is a proposed amendment or a proposed change only, no such notice of redemption shall be given earlier than 90 days prior to: (i) the earliest date on which the Issuer would be required to pay such Additional Amounts (in the case of a redemption pursuant to Condition 6(c)); or (ii) the first Interest Payment Date on which the eventuality set out in Condition 6(c)(ii)(A) or Condition 6(c)(ii)(B), as applicable, would materialise (in the case of a redemption pursuant to Condition 6(c)(ii)), as applicable; or

(y) subject to Condition 6(b) (without any requirement for the consent or approval of the Noteholders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Registrar, the Principal Paying Agent and, in accordance with Condition 16, the Noteholders (which notice shall be irrevocable), substitute at any time all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or become, Qualifying Dated Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph (y) and subject to the receipt by it of the certificates of the Directors referred to below and in the definition of "Qualifying Dated Tier 2 Securities") agree to such substitution or variation. The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution or variation of the Notes for or into Qualifying Dated Tier 2 Securities, provided that the Trustee shall not be obliged to participate or assist in or agree to any such substitution or variation of the Notes for or into Qualifying Dated Tier 2 Securities if the terms of the securities into which the Notes are to be substituted or are to be varied or such substitution or variation impose, in the Trustee's opinion, more onerous obligations or duties upon it or exposes it to liabilities or reduces its protections. If the Trustee does not so participate or assist or agree as provided above, the Issuer may, subject as provided above, redeem the Notes as provided above.

Prior to the publication of any notice of redemption, substitution or variation pursuant to this Condition 6(c), the Issuer shall deliver to the Trustee (i) a certificate signed by two Directors stating that the relevant requirement or circumstance referred to in Condition 6(c)(i) or Condition 6(c)(ii) applies, and (ii) an opinion from a nationally recognised law firm or other tax adviser in the UK experienced in such matters to the effect that the relevant requirement or circumstance referred to in Condition 6(c)(i) or Condition 6(c)(ii) applies. The Trustee shall be entitled to treat such certificate and opinion (and, if so treated and accepted by the Trustee, shall be treated and accepted by the Noteholders and all other interested parties) as correct, conclusive and sufficient evidence thereof and shall not be liable to any person by reason thereof. Upon expiry of such notice, the Issuer shall (subject to Condition 6(b) and, in the case of a redemption, to Condition 2(b), Condition 6(a)(ii), Condition 6(a)(iii) and Condition 6(a)(iv)) either redeem, vary or substitute the Notes, as the case may be.

In connection with any substitution or variation in accordance with this Condition 6(c), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or admitted to trading.

(d) ***Redemption, Substitution or Variation at the Option of the Issuer due to Capital Disqualification Event***

If, immediately prior to the giving of the notice referred to below, a Capital Disqualification Event has occurred and is continuing, then:

(i) the Issuer may, subject to Condition 2(b), Condition 6(a)(ii) and Condition 6(b) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Registrar, the Principal Paying Agent and, in accordance with Condition 16, the Noteholders (which notice shall be irrevocable and shall be given at any time up to and including the anniversary of the occurrence of such Capital Disqualification Event), redeem in accordance with these Conditions all, but not some only, of the Notes at any time at their principal amount together with Arrears of Interest, if any, and any other accrued and unpaid interest thereon to (but excluding) the date of redemption in accordance with these Conditions; or

(ii) the Issuer may, subject to Condition 6(b) (without any requirement for the consent or approval of the Noteholders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Registrar, the Principal Paying Agent and, in accordance with Condition 16, the Noteholders (which notice shall be irrevocable), substitute at any time all (and not some only) of the Notes for, or vary the terms of the Notes so that they remain or become (in the case of a Capital Disqualification Event) Qualifying Dated Tier 2 Securities and the Trustee shall (subject to the following provisions of this Condition 6(d)(ii) and subject to the receipt by it of the certificate of the Directors of the Issuer referred to below and (in the case of a substitution or variation in connection with a Capital Disqualification Event in the definition of "Qualifying Dated Tier 2 Securities" agree to such substitution or variation. The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution or variation of the Notes for or into Qualifying Dated Tier 2 Securities, provided that the Trustee shall not be obliged to participate or assist in any such substitution or variation or agree to the terms of the securities into which the Notes are to be substituted or are to be varied if such substitution or variation imposes, in the Trustee's opinion, more onerous obligations or duties upon it or exposes it to liabilities or reduces its protections. If the Trustee does not so participate or assist or agree as provided above, the Issuer may, subject as provided above, redeem the Notes as provided above.

Prior to the publication of any notice of redemption, substitution or variation pursuant to this Condition 6(d), the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that a Capital Disqualification Event has occurred and is continuing as at the date of the certificate. The Trustee shall be entitled to treat such certificate (and if so treated and accepted

by the Trustee, shall be so treated and accepted by the Noteholders and all other interested parties) as correct, conclusive and sufficient evidence thereof and the Trustee shall be entitled to rely on such certificate without liability to any person. Upon expiry of such notice, the Issuer shall (subject to Condition 6(b) and, in the case of a redemption, to Condition 2(b), Condition 6(a)(ii), Condition 6(a)(iii) and Condition 6(a)(iv)) either redeem, vary or substitute the Notes, as the case may be.

In connection with any substitution or variation in accordance with this Condition 6(d), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or admitted to trading.

(e) ***Purchases***

Subject to Conditions 2(b) and 6(b), the Issuer and any of its Subsidiaries may, at any time, purchase Notes in the open market or otherwise and at any price.

(f) ***Cancellation***

All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may (at the option of the Issuer or the relevant Subsidiary) be held, reissued, resold or surrendered for cancellation. All Notes surrendered for cancellation, together with all Notes redeemed by the Issuer, shall be cancelled forthwith. Any Notes so redeemed or surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

(g) ***Trustee Not Obliged to Monitor***

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 6 and will not be responsible to Noteholders for any loss arising from any failure by the Trustee to do so. Unless and until the Trustee has actual knowledge of the occurrence of any event or circumstance within this Condition 6, it shall be entitled to assume that no such event or circumstance exists.

7 Payments

(a) ***Method of Payment***

(i) Payments of principal shall be made in pounds sterling by transfer to a sterling account maintained by or on behalf of the payee with a bank in London and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the specified office of the Principal Paying Agent.

(ii) Payments of interest shall be made in pounds sterling by transfer to a sterling account maintained by or on behalf of the payee with a bank in London and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the specified office of the Principal Paying Agent.

(b) ***Payments subject to Fiscal Laws***

Save as provided in Condition 8, payments will be subject in all cases to any fiscal or other laws, regulations and directives in the place of payment or other laws or regulations to which the Issuer or its Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commissions or expenses shall be charged to the Holders in respect of such payments.

(c) ***Record Date***

Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's specified office on the fifteenth day before the due date of such payment (the "**Record Date**").

(d) ***Appointment of Agents***

The initial Principal Paying Agent, the Registrar and the Transfer Agents and their initial specified offices are listed below. They act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right, subject to the approval of the Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent, the Registrar and the Transfer Agents and to appoint replacement agents or additional or other Paying Agents and/or Transfer Agents, provided that it will:

(i) at all times maintain a Principal Paying Agent, a Registrar and a Transfer Agent; and

(ii) at all times maintain a Paying Agent having a specified office in a Member State of the European Union other than the United Kingdom that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any such termination or appointment and of any change in the specified offices of the Principal Paying Agent, Registrar or Transfer Agents will be given to the Holders in accordance with Condition 16.

If any of the Registrar, Transfer Agents or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions or the Agency Agreement (as the case may be), the Issuer shall appoint, on terms acceptable to the Trustee, an independent financial institution acceptable to the Trustee to act as such in its place.

(e) ***Non-Business Days***

If any date for payment in respect of any Note is not a Business Day, the Holder shall not be entitled to payment until the next following Business Day nor to any interest or other sum in respect of such postponed payment.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the UK or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required by law to be made ("**Additional Amounts**"), except that no such Additional Amounts shall be payable with respect to any Note:

(a) the Holder of which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of the Holder having some connection with the UK other than the mere holding of the Note; or

(b) presented for payment by or on behalf of a Noteholder who could lawfully have avoided (but has not so avoided) such deduction or withholding by complying or procuring that any person who is associated or connected with the Noteholder for the purposes of any tax complies with any statutory requirements or by making or procuring that any such person makes a declaration

of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note is presented for payment; or

(c) presented for payment more than 30 days after the Relevant Date except to the extent that the Noteholder would have been entitled to such Additional Amounts on presenting it for payment on the thirtieth day; or

(d) where such withholding or deduction is required to be made pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive (as amended from time to time) or any agreement between the European Union and any jurisdiction providing for equivalent measures; or

(e) presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in an EU Member State (provided that there is such a Paying Agent appointed at the relevant time).

As used in these Conditions, "**Relevant Date**" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders in accordance with Condition 16 that, upon further presentation of the Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to principal and/or interest shall be deemed to include any Additional Amounts that may be payable under this Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

9 Prescription

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest, including, without limitation, Arrears of Interest) from the appropriate Relevant Date in respect of them.

10 Events of Default and Enforcement

(a) ***Rights to institute and/or prove in a winding-up***

Notwithstanding any of the provisions below in this Condition 10, the right to institute winding-up proceedings is limited to circumstances where payment has become due and is not duly paid. Pursuant to Condition 2(b), no principal, interest or any other amount will be due on a scheduled payment date if the Solvency Condition is not or would not be satisfied at the time of and immediately after any such payment. In addition, in the case of any payment of interest in respect of the Notes which is deferred pursuant to Condition 5(a), such payment will not be due on the scheduled payment date and, in the case of payment of principal, such payment will be deferred and will not be due on the scheduled payment date if Condition 6(a)(ii) applies or the Relevant Regulator does not consent to the redemption (to the extent that consent is then required by the Relevant Regulator or the Relevant Rules), the Relevant Regulator objects to the redemption or such redemption otherwise cannot be effected in compliance with the Relevant Rules on such date.

If:

(i) a default is made for a period of 14 days or more in the payment of any interest (including, without limitation, Arrears of Interest) or principal due in respect of the Notes or any of them; or

(ii) a winding-up of the Issuer (other than an Approved Winding-up) occurs or an administrator of the Issuer is appointed and the administrator has given notice that it intends to declare and distribute a dividend,

then the Trustee at its discretion may, and if so requested by Noteholders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject, in each case, to its having been indemnified and/or secured and/or prefunded to its satisfaction):

(A) in the case of Condition 10(a)(i), institute proceedings for the winding-up of the Issuer; and

(B) in the case of each of Condition 10(a)(i) and Condition 10(a)(ii), prove in the winding-up or administration of the Issuer and/or claim in the liquidation of the Issuer (such claim being for such amount, and being subordinated in the manner, as is provided in Condition 2(a)),

but (in either case) may take no further or other action to enforce, prove or claim for any payment by the Issuer in respect of the Notes or the Trust Deed.

No payment in respect of the Notes or the Trust Deed may be made by the Issuer pursuant to this Condition 10(a), nor will the Trustee accept the same, otherwise than during or after a winding-up of the Issuer or after an administrator of the Issuer has given notice that it intends to declare and distribute a dividend, unless the Issuer has given prior written notice (with a copy to the Trustee) to, and received consent or non-objection from, the Relevant Regulator, which the Issuer shall confirm in writing to the Trustee.

(b) ***Enforcement***

Without prejudice to Condition 10(a), the Trustee may, at its discretion and without further notice, institute such proceedings or take such steps or actions against the Issuer as it may think fit to enforce any obligation, term, condition or provision binding on the Issuer under the Trust Deed or the Notes (other than any payment obligation of the Issuer under or arising from the Notes or the Trust Deed, including, without limitation, payment of any principal or interest (including, without limitation, Arrears of Interest) in respect of the Notes and any damages awarded for breach of any obligations) but in no event shall the Issuer, by virtue of the institution of any such proceedings or the taking of such steps or actions, be obliged to pay any sum or sums (in cash or otherwise) sooner than the same would otherwise have been payable by it.

Nothing in this Condition 10(b) shall, subject to Condition 10(a), prevent the Trustee instituting proceedings for the winding-up of the Issuer, proving in any winding-up of the Issuer and/or claiming in any liquidation of the Issuer in respect of any payment obligations of the Issuer arising from the Notes or the Trust Deed (including, without limitation, payment of any principal or interest (including, without limitation, Arrears of Interest) in respect of the Notes and any damages awarded for any breach of any obligations under the Notes or the Trust Deed).

Nothing in this Condition 10 shall affect or prejudice the payment of the costs, fees, charges, expenses, liabilities or remuneration of the Trustee under the Trust Deed or the rights and remedies of the Trustee in respect thereof.

(c) ***Entitlement of the Trustee***

The Trustee shall not be bound to take any of the actions referred to in Condition 10(a) or Condition 10(b) to enforce the obligations of the Issuer under the Trust Deed or the Notes or any other action under or pursuant to the Trust Deed unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding, and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

(d) ***Right of Noteholders***

No Noteholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up of the Issuer or prove or claim in the liquidation or winding-up of the Issuer unless the Trustee, having become so bound to proceed or being able to prove or claim in such winding-up or liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case, the Noteholder shall, with respect to the Notes held by it, have only such rights against the Issuer as those which the Trustee is entitled to exercise in respect of such Notes as set out in this Condition 10.

(e) ***Extent of Noteholders' remedy***

No remedy against the Issuer, other than as referred to in this Condition 10, shall be available to the Trustee or the Noteholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes or under the Trust Deed.

11 Meetings of Noteholders, Modification, Waiver and Substitution

(a) ***Meetings of Noteholders***

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer or by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons holding Notes or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia* (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Arrears of Interest on the Notes, (ii) to reduce or cancel the principal amount of the Notes, (iii) to reduce the rate of interest or Arrears of Interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any interest amount in respect of the Notes, (iv) to vary the currency or currencies of payment or denomination of the Notes, (v) to take any steps that as specified hereon may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, (vi) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (vii) to modify Condition 2 (and the provisions of the Trust Deed relating to subordination), in which case the necessary quorum shall be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

The agreement or approval of the Noteholders shall not be required in the case of any variation of these Conditions and/or the Trust Deed made in the circumstances described in Condition 6(c) or Condition 6(d) in connection with the substitution or variation of the Notes so that they remain or become Qualifying Dated Tier 2 Securities, and to which the Trustee has agreed pursuant to the relevant provisions of Condition 6(c) or Condition 6(d), as the case may be. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

(b) ***Modification of the Notes, the Trust Deed or the Agency Agreement***

The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of these Conditions and the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions and the provisions of the Trust Deed or the Agency Agreement that is, or determine that any Event of Default or Potential Event of Default (as defined in the Trust Deed) is, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders.

Any such modification, authorisation or waiver shall be binding on the Noteholders and, unless the Trustee agrees otherwise, such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 16.

(c) ***Notice to the Relevant Regulator***

No modification to these Conditions or any other provisions of the Trust Deed shall become effective unless (to the extent then required by the Relevant Regulator or the Relevant Rules) the Issuer shall have given at least one month's prior written notice to, and received consent or no objection from, the Relevant Regulator (or such other period of notice as the Relevant Regulator may from time to time require or accept).

(d) ***Substitution***

The Trustee may agree with the Issuer, without the consent of the Noteholders, to the substitution, on a subordinated basis equivalent to that referred to in Condition 2, of any person or persons incorporated in any country in the world (the "**Substitute Obligor**") in place of the Issuer (or any previous Substitute Obligor under this Condition 11(d)) as a new principal debtor under the Trust Deed and the Notes, provided that:

(i) a trust deed is executed or some other form of undertaking is given by the Substitute Obligor in form and manner satisfactory to the Trustee, agreeing to be bound by the terms of the Trust Deed and the Notes, with any consequential amendments which the Trustee may deem appropriate, as fully as if the Substitute Obligor had been named in the Trust Deed and on the Notes, as the principal debtor in place of the Issuer (or of any previous Substitute Obligor, as the case may be);

(ii) (unless the successor in business of the Issuer is the Substitute Obligor) the obligations of the Substitute Obligor under the Trust Deed and the Notes are guaranteed by the Issuer (or the successor in business of the Issuer) on a subordinated basis equivalent to that referred to in Condition 2 and in the Trust Deed and in a form and manner satisfactory to the Trustee, and provided further that the obligations of such guarantor shall be subject to a solvency condition equivalent to that set out in Condition 2(b), such guarantor shall not exercise rights of subrogation or contribution against the Substitute Obligor without the consent of the Trustee and the only event of default applying to such guarantor shall be an event of default equivalent to that set out in Condition 10(a);

(iii) two directors of the Substitute Obligor or other officers acceptable to the Trustee certify that the Substitute Obligor is solvent at the time at which the said substitution is proposed to be effected (and the Trustee may rely absolutely on such certification without further enquiry and without liability to any person and shall not be bound to have regard to the financial position, profits or prospects of the Substitute Obligor or to compare the same with those of the Issuer);

(iv) (without prejudice to the rights of reliance of the Trustee under Condition 11(d)(iii)) the Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the Noteholders;

(v) two directors of the Substitute Obligor certify to the Trustee that such substitution will not give rise to a Tax Event or a Capital Disqualification Event;

(vi) (without prejudice to the generality of Condition 11(d)(i)) the Trustee may, in the event of such substitution, agree, without the consent of the Noteholders, to a change in the law governing the Trust Deed and/or the Notes, provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Noteholders;

(vii) if the Substitute Obligor is, or becomes, subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "**Substituted Territory**") other than the territory or any such authority to the taxing jurisdiction of which the Issuer is subject generally (the "**Issuer's Territory**"), the Substitute Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 8 with the substitution for the references in that Condition and in Condition 6(c) to the Issuer's Territory of references to the Substituted Territory, whereupon the Trust Deed and the Notes will be read accordingly; and

(viii) the Issuer and the Substitute Obligor comply with such other requirements as are reasonable in the interests of the Noteholders, as the Trustee may direct.

Any substitution pursuant to this Condition 11 shall be subject (to the extent then required by the Relevant Regulator or the Relevant Rules) to any notifications to, or consent or non-objection from, the Relevant Regulator.

Any such substitution shall be binding on the Noteholders and shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 16.

12 Entitlement of the Trustee

In connection with any exercise of its functions (including, but not limited to, those referred to in Condition 11), the Trustee shall have regard to the interests of the Noteholders as a class and the Trustee shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise as aforesaid, no Noteholder shall be entitled to claim, whether from the Issuer, the Substitute Obligor or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or any such exercise upon any individual Noteholders except to the extent already provided in Condition 8 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Nothing in the Trust Deed or these Conditions (including, without limitation, the provisions of Condition 2 or Condition 10(a)) shall affect or prejudice the payment of the costs, fees, charges, expenses, liabilities or remuneration of the Trustee for its own account under the Trust Deed or the rights and remedies of the Trustee in respect thereof.

13 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability towards the Issuer and the Noteholders, including (i) provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction, and (ii) provisions limiting or excluding its liability in certain circumstances. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario, and (ii) to require that any indemnity or security given to it by the Noteholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and

an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, inter alia, (i) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of the Issuer's Subsidiaries, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

14 Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may, from time to time, without the consent of the Noteholders, create and issue further securities either (i) having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the Notes then outstanding, or (ii) upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 and forming a single series with the Notes. Any further securities forming a single series with the Notes shall be constituted by the Trust Deed or a deed supplemental to it.

16 Notices

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the Register maintained by the Registrar. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18 Governing Law

The Trust Deed, the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, the laws of England.

19 Definitions

As used herein:

"**Additional Amounts**" has the meaning given to it in Condition 8;

"**Agents**" means Citibank N.A., London Branch;

"**Approved Winding-up**" means a solvent winding-up of the Issuer solely for the purposes of a reconstruction or amalgamation of the Issuer, the terms of which reconstruction, amalgamation or substitution (i) have previously been approved in writing by the Trustee or by an Extraordinary Resolution, and (ii) do not provide that the Notes shall thereby become payable;

"**Arrears of Interest**" has the meaning given to it in Condition 5(c);

"**Assets** means the unconsolidated gross assets of the Issuer as shown in the latest published audited balance sheet of the Issuer, but adjusted for subsequent events in such manner as the Directors may determine;

"**Authorised Denomination**" has the meaning given to it in Condition 1;

"**Business Day**" means a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets are open for general business in London;

"**Calculation Amount**" means £1,000 in principal amount of the Notes;

A "**Capital Disqualification Event**" is deemed to have occurred if, as a result of the implementation of Solvency II or any change to (or change to the interpretation by any court or authority entitled to do so of) the Relevant Rules, the Directive or (following its implementation) Solvency II, the entire principal amount of the Notes is fully excluded from counting as Tier 2 Capital for the purposes of the Issuer or the Group as a whole, whether on a solo, group or consolidated basis, except where such non-qualification is only as a result of any applicable limitation on the amount of such capital;

"**Directive**" means Directive 98/78/EC of the European Union on the supplementary supervision of insurance undertakings in an insurance group, as amended from time to time;

"**Directors**" means the directors of the Issuer;

"**EEA Regulated Market**" means a market as defined by Article 4.1.14 of Directive 2004/39/EC of the European Parliament and of the Council of the European Union on markets in financial instruments, as amended;

"**EIOPA**" means the European Insurance and Occupational Pensions Authority;

"**European Economic Area**" or "**EEA**" means the countries comprising the European Union together with Norway, Liechtenstein and Iceland;

"**Extraordinary Resolution**" has the meaning given to it in the Trust Deed;

"**FSMA**" means the UK Financial Services and Markets Act 2000, as amended from time to time;

"**Group**" means the Group Holding Company and its Subsidiaries at such time;

"**Group Holding Company**" means Rothesay Holdco UK Limited or, if the Issuer has an ultimate insurance holding company that is subject to consolidated supervision by an EEA regulatory authority for the purposes of the Directive or, following Solvency II Implementation, the Solvency II Directive, such ultimate insurance holding company (such company being, as at the Issue Date, Rothesay Holdco UK Limited);

"**Group Supervisor**" means the regulatory authority exercising group supervision over the Group in accordance with the Solvency II Directive;

"**Holder**" has the meaning given to it in Condition 3(a);

"**Insolvent Insurer Winding-up**" means:

(i) the winding-up of any insurance undertaking within the Group; or

(ii) the appointment of an administrator of any insurance undertaking within the Group,

in each case where the assets of that insurance undertaking may or will be insufficient to meet all claims of the policyholders pursuant to a contract of insurance of that insurance undertaking (and for these purposes, the claims of policyholders pursuant to a contract of insurance shall include all amounts to which policyholders are entitled under applicable legislation or rules relating to the winding-up of insurance companies to reflect any right to receive or expectation of receiving benefits which policyholders may have);

"**insurance holding company**" has the meaning given to it in the Solvency II Directive;

"**insurance undertaking**" has the meaning given to it in the Solvency II Directive;

"**Interest Payment Date**" means 30 October in each year, starting on (and including) 30 October 2016;

"Interest Period" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"**Issue Date**" means 30 October 2015, being the date of the initial issue of the Notes;

"**Issuer's Territory**" has the meaning given to it in Condition 11(d)(vii);

"**Level 2 Regulations**" means the Commission Delegated Regulation (EU) No. 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council of the European Union on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II);

"**Liabilities**" means the unconsolidated gross liabilities of the Issuer as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events in such manner as the Directors may determine;

"**Lower Tier 2 Capital**" has the meaning given to it for the purposes of the Relevant Rules and shall, following the implementation of Solvency II or any other change in law or any Relevant Rules such that Lower Tier 2 Capital ceases to be a separately recognised tier of capital resources, be deemed to be a reference to Tier 2 Capital;

"**Main Securities Market**" means the regulated market of the Irish Stock Exchange;

"**Mandatory Interest Deferral Date**" means each Interest Payment Date in respect of which a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest was made on such Interest Payment Date;

"**Maturity Date**" means 30 October 2025;

"**Minimum Capital Requirement**" means the Minimum Capital Requirement, the minimum Group Solvency Capital Requirement or other minimum capital requirements (as applicable) referred to in Solvency II or the Relevant Rules;

"**Note Certificate**" has the meaning given to it in Condition 1;

"**Noteholder**" has the meaning given to it in Condition 3(a);

"**Official List**" means the official list of the Irish Stock Exchange;

"***Pari Passu* Creditors**" means creditors of the Issuer whose claims rank, or are expressed to rank, *pari passu* with the claims of the Noteholders, including (without limitation) holders of *Pari Passu* Securities;

"***Pari Passu* Securities**" has the meaning given to it in Condition 2(a);

"**pounds**", "**sterling**", "**£**" or "**p**" means the lawful currency of the UK;

"**Prospectus Rules**" means the prospectus rules made by the FCA under section 73(A) of FSMA (as amended from time to time);

"**Qualifying Dated Tier 2 Securities**" means securities issued directly by the Issuer or indirectly and guaranteed by the Issuer (such guarantee to rank on a subordinated basis equivalent to that referred to in Condition 2 and in the Trust Deed) that:

(i) have terms not materially less favourable to an investor than the terms of the Notes (as reasonably determined by the Issuer in consultation with an investment bank or financial adviser of international standing (which, in either case, is independent of the Issuer), and provided that a certification to such effect (including as to such consultation) of two Directors shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely without further enquiry and without liability to any person) prior to the issue or, as appropriate, variation of the relevant securities);

(ii) (subject to paragraph (i) above) (a) contain terms which comply with the then current requirements of the Relevant Regulator in relation to Lower Tier 2 Capital (prior to Solvency II Implementation) or Tier 2 Capital (on or after Solvency II Implementation), (b) include terms which provide for interest at a rate at least equal to 8.00 per cent., and preserve the Interest Payment Dates; (c) rank senior to, or pari passu with, the ranking of the Notes; (d) preserve any existing rights under these Conditions to any accrued interest, any Arrears of Interest and any other amounts which have not been paid; and (e) contain terms providing for deferral of payments of interest and/or principal only if such terms are not materially less favourable to an investor than the deferral provisions contained in the terms of the Notes; and

(iii) are listed on the Official List and admitted to trading on the Main Securities Market or such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee (such approval not to be unreasonably withheld or delayed),

and provided that a certification to the effect of paragraphs (i) and (ii) above, signed by two Directors, shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely without further enquiry and without liability to any person) prior to the issue or, as appropriate, variation of the relevant securities;

"**Recognised Stock Exchange**" means a recognised stock exchange as defined in section 1005 of the Income Tax Act 2007 as the same may be amended from time to time and any provision statute or statutory instrument replacing the same from time to time;

"**Record Date**" has the meaning given to it in Condition 7(c);

"**Register**" has the meaning given to it in Condition 3(a);

"**Regulatory Capital Requirements**" means any applicable capital resources requirement or applicable overall financial adequacy rule (or equivalent) required by the Relevant Regulator pursuant to the Relevant Rules, as any such requirement or rule is in force from time to time;

"**Regulatory Deficiency Interest Deferral Event**" means any event (including, without limitation, any event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, all or part of the Group (which part includes the Issuer and at least one other member of the Group) or any insurance undertaking within the Group to be breached and such breach is an event) which under Solvency II and/or under the Relevant Rules means that the Issuer must defer

payment of interest (or, if applicable, Arrears of Interest) in respect of the Notes (in order that the Notes qualify, and/or on the basis that the Notes are intended to qualify, as Tier 2 Capital under Solvency II and any other Relevant Rules);

"**Regulatory Deficiency Redemption Deferral Event**" means any event (including, without limitation, where an Insolvent Insurer Winding-up has occurred and is continuing or any event which causes any Solvency Capital Requirement or Minimum Capital Requirement applicable to the Issuer, all or part of the Group (which part includes the Issuer and at least one other member of the Group) or any insurance undertaking within the Group to be breached and the continuation of such Insolvent Insurer Winding-up is, or as the case may be, such breach is, an event) which under Solvency II and/or under the Relevant Rules means that the Issuer must defer or suspend repayment or redemption of the Notes (in order that the Notes qualify, and/or on the basis that the Notes are intended to qualify, as Tier 2 Capital under Solvency II and any other Relevant Rules);

"**Relevant Date**" has the meaning given to it in Condition 8;

"**Relevant Regulator**" means the UK Regulator or, if the UK Regulator at any time ceases to be the Group Supervisor or the Supplementary Supervisor, such other regulator as becomes the Group Supervisor for the purposes of Solvency II or the Supplementary Supervisor for the purposes of the Directive (as applicable) or such other regulator having primary supervisory authority with respect to prudential matters in relation to the Group;

"**Relevant Rules**" means any legislation, rules or regulations (whether having the force of law or otherwise) in the jurisdiction of the Relevant Regulator (including, without limitation, those implementing the Directive or, as applicable, Solvency II and any relevant prudential rules for insurers applied by the Relevant Regulator and any amendment, supplement or replacement thereof) from time to time relating to the characteristics, features or criteria of own funds or capital resources;

"**Senior Creditors**" means (i) creditors of the Issuer who are unsubordinated creditors of the Issuer, including all policyholders of the Issuer (for the avoidance of doubt, the claims of policyholders shall include all amounts to which policyholders are entitled under applicable legislation or rules relating to the winding-up of insurance companies to reflect any right to receive or expectation of receiving benefits which policyholders may have), if any, and (ii) other creditors of the Issuer whose claims are, or are expressed to be, subordinated to the claims of other creditors of the Issuer (other than those whose claims are in respect of instruments or obligations which constitute (or relate to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Issuer in respect of any obligations of any other person which constitute), or (in either case) would but for any applicable limitation on the amount of any such capital constitute, (a) Tier 1 Capital, or (b) Tier 2 Capital (including, without limitation, by virtue of the operation of any grandfathering provisions under any Relevant Rules), or whose claims otherwise rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the Noteholders);

"**Solvency II**" means the Solvency II Directive and any additional measures adopted to give effect to the Solvency II Directive (for the avoidance of doubt, whether implemented by way of a regulation (including, without limitation, the Level 2 Regulations), a directive, application of relevant EIOPA guidelines or otherwise);

"**Solvency II Directive**" means Directive 2009/138/EC of the European Parliament and of the Council of the European Union of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) and which must be transposed by Member States of the European Economic Area pursuant to Article 309 of Directive 2009/138/EC;

"**Solvency II Implementation**" means the date from which legislation, rules or other measures implementing Solvency II in the UK (or, if the UK Regulator ceases to be the Supplementary Supervisor or ceases to be the Group Supervisor, in the jurisdiction of such replacement Supplementary Supervisor or of the replacement Group Supervisor, as applicable) are applied to the Issuer;

"**Solvency Capital Requirement**" means the Solvency Capital Requirement or the Group Solvency Capital Requirement (as applicable) referred to in, or any other capital requirement howsoever described in, Solvency II or the Relevant Rules;

"**Solvency Condition**" has the meaning given to it in Condition 2(b);

"**Subsidiary**" has the meaning given to it in section 1159 of the Companies Act 2006 (as amended from time to time);

"**Substitute Obligor**" has the meaning given to it in Condition 11(d);

"**Substituted Territory**" has the meaning given to it in Condition 11(d)(vii);

"**successor in business**" means, with respect to the Issuer, any body corporate which, as the result of any amalgamation, merger, reconstruction, acquisition or transfer:

(i) owns beneficially the whole or substantially the whole of the undertaking, property and assets owned by the Issuer or a successor in business of the Issuer prior thereto; or

(ii) carries on, as successor of the Issuer or a successor in business of the Issuer, the whole or substantially the whole of the business carried on by the Issuer or a successor in business of the Issuer prior thereto;

"**Supplementary Supervisor**" means the regulatory authority exercising supplementary supervision over the Group in accordance with the Directive;

"**Tax Event**" means an event of the type described in Condition 6(c)(i) or 6(c)(ii);

"**Tax Law Change**" has the meaning given to it in Condition 6(c)(i);

"**Tier 1 Capital**" has the meaning given to it for the purposes of the Relevant Rules;

"**Tier 2 Capital**" has the meaning given to it for the purposes of the Relevant Rules;

"**UK Regulator**" means the UK Prudential Regulation Authority or any successor UK regulatory authority having prudential supervisory responsibilities with respect to the Issuer and/or the Group;

"**United Kingdom**" or "**UK**" means the United Kingdom of Great Britain and Northern Ireland; and

"**Upper Tier 2 Capital**" has the meaning given to it prior to Solvency II Implementation for the purposes of the Relevant Rules.

OVERVIEW OF THE NOTES WHILE IN GLOBAL FORM

Initial Issue of Certificates

The Global Certificate (as defined in the Trust Deed) will be registered in the name of a nominee for a Common Depositary for Euroclear and Clearstream, Luxembourg and may be delivered on or prior to the Issue Date.

Upon the registration of the Global Certificate in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system approved by the Trustee (an "**Alternative Clearing System**") as the Holder of a Note represented by the Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer (as the case may be) to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the registered holder of the Global Certificate in respect of each amount so paid.

Exchange

Interests in the Global Certificate will be exchangeable (free of charge to the holder), in whole but not in part, for definitive Notes only if:

(a) an Event of Default (as set out in the Trust Deed) has occurred; or

(b) Euroclear and Clearstream, Luxembourg are both closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or both announce an intention permanently to cease business or do in fact do so and no Alternative Clearing System is available.

Any reference herein to Euroclear and/or Clearstream, Luxembourg, shall, wherever the context so permits, be deemed to include a reference to any Alternative Clearing System.

Amendments to Conditions

The Global Certificate contains provisions that apply to the Notes that it represents, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

Payments

All payments in respect of Notes represented by the Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment where "**Clearing System Business Day**" means Monday to Friday (inclusive) except 25 December and 1 January. The calculation of all payments on the Notes will be made in respect of the total aggregate amount of the Notes represented by the Global Certificate, together with such other sums and Additional Amounts (if any) as may be payable under the Conditions, all in accordance with the Conditions and the Trust Deed.

Meetings

For the purposes of any meeting of Noteholders, the Holder of the Notes represented by the Global Certificate shall be treated as being entitled to one vote in respect of each £1,000 in principal amount of the Notes.

Trustee's Powers

In considering the interests of Noteholders while the Global Certificate is held on behalf of, or registered in the name of any nominee for, a Clearing System, the Trustee may have regard to any information provided to it by such Clearing System or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Notes represented by the Global Certificate.

Cancellation

Cancellation of any Note following its redemption or purchase by the Issuer will be effected by reduction in the aggregate principal amount of the Notes in the Register of Noteholders.

Notices

So long as all the Notes are represented by the Global Certificate and it is held on behalf of a Clearing System, notices to Noteholders may be given by delivery of the relevant notice to that Clearing System for communication by it to entitled accountholders in substitution for notification as required by the Conditions. A notice will be deemed to have been given to accountholders on the first Business Day following the day on which such notice is sent to the Relevant Clearing System for delivery to entitled accountholders.

Electronic Consent and Written Resolution

While the Global Certificate is registered in the name of any nominee for a Clearing System:

(a) approval of a resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the Relevant Clearing System(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding (an "**Electronic Consent**" as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the Special Quorum, as defined in the Trust Deed, was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders whether or not they participated in such Electronic Consent; and

(b) where Electronic Consent is not being sought, to determine whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, (i) by accountholders in the Clearing System with entitlements to such Global Certificate, and/or (ii) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is beneficially held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (i) above, Euroclear, Clearstream, Luxembourg or any other relevant Alternative Clearing System (the "**Relevant Clearing System**") and, in the case of (ii) above, the Relevant Clearing System and the accountholder identified by the Relevant Clearing System for the purposes of (ii) above. Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print-out of electronic records provided by the Relevant Clearing System (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the

accountholder of a particular principal or nominal amount of the Notes is clearly identified, together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

DESCRIPTION OF THE ISSUER AND THE GROUP

1 Description of the Issuer and the Group

1.1 *Overview of the Group*

The Group was established in 2007 as a wholly owned subsidiary of The Goldman Sachs Group, Inc. ("**Goldman Sachs**") and originally operated as an insurance company specialising in the provision of annuities. It has since become one of the leading providers of regulated insurance solutions in the UK pensions risk transfer market with over £18 billion of bulk annuity insurance contracts written. The Group's principal activity is providing wholesale insurance annuity products to UK defined benefit pension schemes and their members, which involves the Group conducting "buy-in" and "buy-out" transactions to defined benefit pension plans. The Group also acquires bulk annuities through the reinsurance of the portfolios of other insurance companies and/or acquisition of in-force annuity portfolios from other insurance companies, as well as through strategic acquisitions of other insurance companies specialising in annuities. As at 30 June 2015, the Group insured 172 pension schemes. A detailed explanation of the Group's business is provided in "*Description of the Issuer and the Group – Key services and products*".

The ultimate holding company of the Group and its subsidiaries is RHUK. RHUK was incorporated in England and Wales on 29 August 2013 with registered number 08668809. The principal operating companies are the Issuer and RAL. The Issuer was incorporated on 26 February 2007 with registered number 06127279. RAL was incorporated on 16 January 2007 and is a wholly owned subsidiary of the Issuer, with registered number 06054422. Both RAL and the Issuer were incorporated and registered as private limited companies in England and Wales under the Companies Act 1985. The Issuer and RAL are each authorised by the PRA and regulated by the PRA and the FCA.

The principal legislation under which the Group and its subsidiaries operate is the Companies Act 2006 and FSMA, and the regulations made thereunder.

The registered office of the Group and its subsidiaries and the business address of each of their directors for matters concerning the Group and/or its subsidiaries' business is Level 25, The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB, United Kingdom. The telephone number of the registered office is +44(0) 20 7770 5300.

1.2 *History and ownership of the Group*

As noted above, when the Group was established in 2007 it was a wholly owned subsidiary of Goldman Sachs. In December 2013, Goldman Sachs divested 64 per cent. of its shares to subsidiaries of Blackstone Tactical Opportunities Advisors LLC ("**Blackstone**"), GIC Special Investments Pte Ltd ("**GIC**") and Massachusetts Mutual Life Insurance Company ("**MassMutual**"), who, together with a fund managed by Goldman Sachs, are the ultimate shareholders of the Group and its subsidiaries and hold their interest through shares in RHUK.

As at the date of this Prospectus, such shareholders held the following percentage interests in the Group (such percentages representative of each shareholders' economic holding of shares in RHUK):

- Rothesay Life (Cayman) Limited, a wholly owned subsidiary of Goldman Sachs, held a 36 per cent. interest in RHUK (the "**Goldman Sachs Shareholder**");
- BTO Rothesay Holdings Limited and Blackstone Family Tactical Opportunities Investment Partnership (Cayman) ESC L.P., subsidiaries of Blackstone, together held a 28.5 per cent. interest in RHUK (the "**Blackstone Shareholders**");

- Cambourne Life Investment Pte Ltd, a fund managed by GIC, held a 28.5 per cent. interest in RHUK (the "**GIC Shareholder**"); and
- MM Rothesay Holdco US LLC, a fund managed by MassMutual, held a 7 per cent. interest in RHUK (the "**MassMutual Shareholder**"),

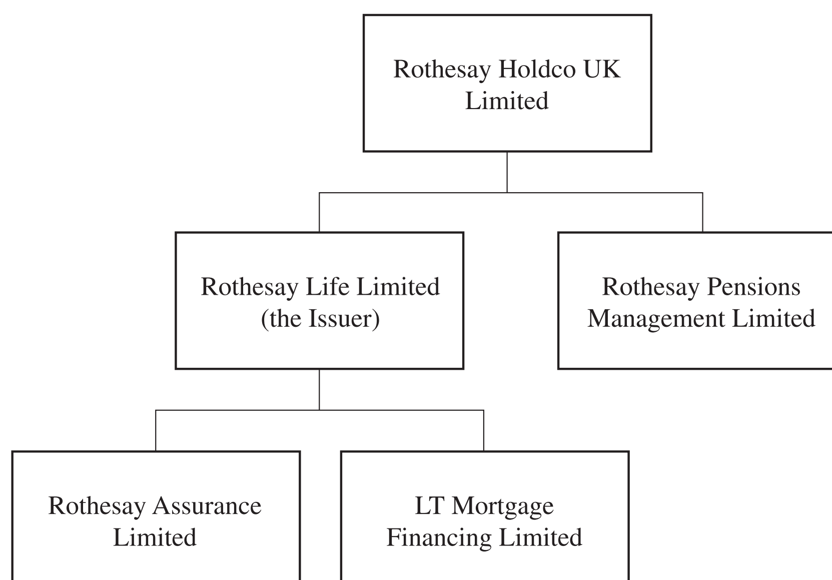
(together, the "**Shareholders**").

The Group is subject to certain shareholder reserved matters which, in broad terms, require the consent of each of the Shareholders that own over 20 per cent. of the ordinary voting shares in the capital of RHUK ("**Shareholder Reserved Matters**"). The Shareholder Reserved Matters include items which are outside the scope of the ordinary course or day-to-day operations of the Group, such as any changes to the constitution or the capital structure of the Group, the approval of significant transactions, as well as amendments to the Group's risk, investment and capital policies. Consent of the relevant Shareholders is also required for material decisions relating to expenditure, business operational and regulatory matters, as well as certain changes to the Group's directors and the overall governance of the Group.

Each entity within the Group and their subsidiaries are managed by a board of directors, with the board of RHUK having overall responsibility for the Group and its subsidiaries. The board of each of the Group's subsidiaries share common directors with the board of RHUK. Please refer to the section headed "*Description of the Issuer and the Group – Board of Directors*" for further information regarding the board and governance structure of the Group and its subsidiaries.

1.3 ***Organisational structure of the Group and its subsidiaries***

The current organisational structure of the Group and the other subsidiaries within the Group's corporate structure is outlined below:



RHUK is the holding company of the Issuer and Rothesay Pensions Management Limited ("**RPML**"). The nature of RHUK's business is to act as the ultimate holding company for all entities within the Group and their subsidiaries.

As noted above, the Issuer is the main operating subsidiary of the Group. Its main role is to write all of the Group's new business. In order to comply with the exemption set out in section 755(3)(b) of the Companies Act 2006 (which otherwise prevents a private company limited by shares from offering to the public any securities of the company), the Issuer has undertaken to re-register as a public company as soon as reasonably practicable and, in any event, before 30 March 2016. Management expects that the Issuer's application for re-registration will be

filed with the Registrar of Companies in late March 2016, shortly after the publication of the Issuer's audited financial statements for the financial year ended 31 December 2015. Whilst sections 757 to 759 of the Companies Act 2006 contemplate a range of orders that can be made by a court in respect of the Issuer should it not so re-register, section 760 states that nothing in any such section affects the validity of the allotment and sale of any securities.

RAL is an operating subsidiary in the Group and is wholly owned by the Issuer. Currently, no new business is originated by RAL. RAL was previously a subsidiary of MetLife and was acquired by the Issuer from MetLife on 16 May 2014. RAL has been operationally integrated into the Group and it is expected that completion of a Part VII Transfer will occur by the end of 2015 through court approval of the transfer of insurance policies held by RAL to the Issuer. At that point, all of the relevant assets and liabilities of RAL will be transferred to the Issuer, and subsequently RAL will be wound down.

RPML provides the management and operational services required by the Group and manages the provision of certain related services to the Group through outsourcing arrangements. RPML was incorporated as a private limited company in England and Wales on 30 March 2007, with registered number 06195160. The services provided by RPML are conducted exclusively for the Group and include policy administration, information technology, finance and facility management services. All employees and consultants of the Group are employed by RPML. Any costs associated with RPML are recharged back to the operating companies in the Group.

LT Mortgage Financing Limited ("**LTMF**") has, since its incorporation, been a dormant entity within the Group. Since LTMF was incorporated, it has not held assets or liabilities, nor has it entered into commitments which may result in it holding any assets or liabilities. It is the intention of the Group that LTMF may, in the future, become an operating subsidiary within the Group that funds and/or originates equity release mortgages. LTMF was incorporated as a private limited company in England and Wales on 17 February 2015, with registered number 09444756.

As at 30 June 2015, the Group and its subsidiaries had 90 full-time equivalent employees, excluding the directors.

1.4 ***Summary of Group entities***

Name of entity[2]	Shareholders[3]	Country of incorporation	Nature of business
Rothesay HoldCo UK Ltd	Rothesay Life (Cayman) Limited (The Goldman Sachs Group, Inc.): 36% BTO Rothesay Holdings Limited (Blackstone Tactical Opportunities Advisors LLC): 28.4% Blackstone Family Tactical Opportunities Investment Partnership (Cayman) ESC L.P. (Blackstone Tactical Opportunities Advisors LLC): 0.1% Cambourne Life Investment Pte Ltd (GIC Special Investments Pte Ltd): 28.5% MM Rothesay Holdco US LLC (Massachusetts Mutual Life Insurance Company): 7%	England and Wales	Holding company

2 Each subsidiary has only one class of ordinary shares. RHUK has ordinary shares and certain other classes of non-voting shares in issue.

3 Each subsidiary operates mainly in its country of incorporation.

Name of entity[2]	Shareholders[3]	Country of incorporation	Nature of business
Rothesay Life Limited (the Issuer)	Rothesay HoldCo UK Ltd: 100%	England and Wales	Operating company
Rothesay Pensions Management Ltd	Rothesay HoldCo UK Ltd: 100%	England and Wales	Service company
Rothesay Assurance Ltd	Rothesay Life Ltd: 100%	England and Wales	Operating company
LT Mortgage Financing Ltd	Rothesay Life Ltd: 100%	England and Wales	Dormant company

2 Pension Risk Transfer Market Overview

The Group operates in the pension risk transfer market. The pension risk transfer market involves (i) the sale and acquisition of wholesale insurance annuity portfolios to defined benefit pension schemes and their members, as well as (ii) the sale and acquisition of existing annuity portfolios from other insurers and reinsurers. The pension risk transfer market also includes longevity reinsurance transactions, the aim of which is to transfer the risk of defined benefit pension scheme members living longer than expected from defined benefit pension schemes to an insurer. Longevity reinsurance transactions are not a primary transaction structure pursued by the Group.

2.1 *Market performance and composition*

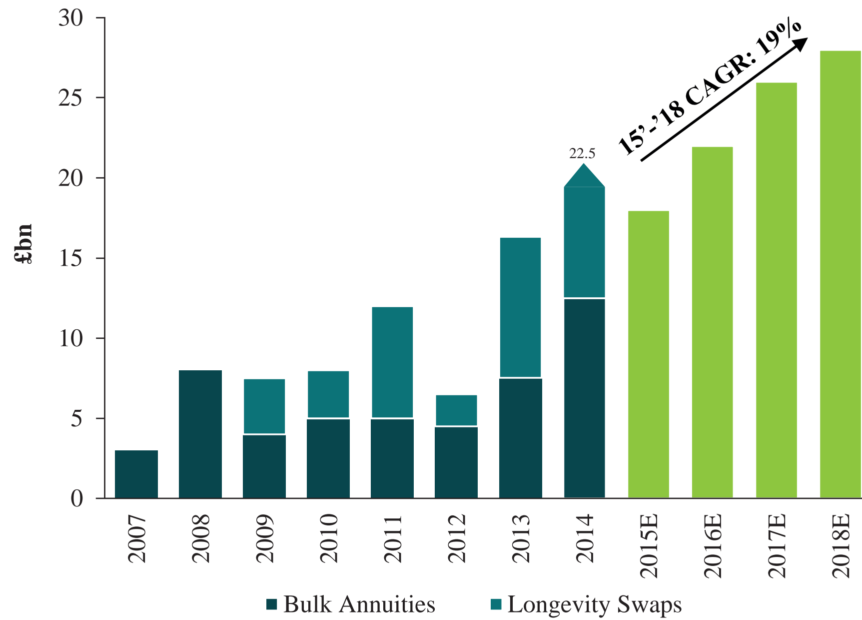
The market in which the Group operates is currently experiencing a period of continual growth. The year 2014 saw the largest volume of pension de-risking transactions being completed, with approximately £22.5 billion of annuity liabilities de-risked despite falling interest rates challenging the affordability of wholesale insurance annuity portfolios for companies and defined benefit pension scheme trustees.[4] The year also saw the largest ever longevity reinsurance transactions completed (involving the transfer by the BT Pension Scheme of assets and liabilities to the value of approximately £16 billion). Over the medium to long term, it is expected that companies and defined benefit pension schemes will seek to pursue buy-out transactions involving significant amounts of UK defined benefit pension liabilities and involving thousands of defined benefit pension schemes.[5]

Since 2007, the number of pension risk transfer transactions has grown at a compound annual growth rate of greater than 30 per cent. as compared to the previous year. The following graph shows the overall growth in the total value of pension risk transfer transactions between 2007 and 2014, and Oliver Wyman's prediction for the total expected growth in the value of pension risk transfer transactions from 2015 to 2018.

4 Source: Towers Watson De-risking Report 2015: The evolving bulk annuity and longevity swap markets.

5 Source: The Pensions Regulator Purple Book 2014.

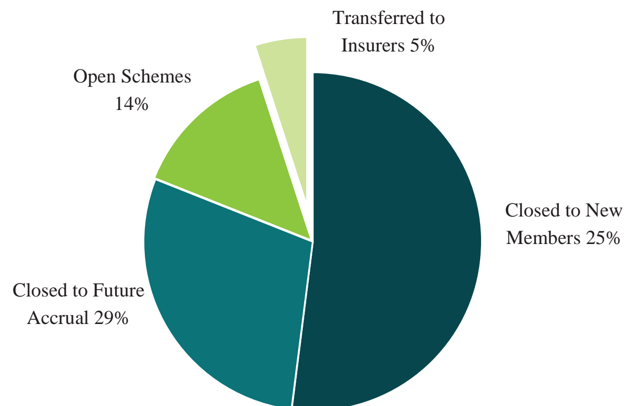
UK Pensions Risk Transfer Value (£billion)



Source: Oliver Wyman, "The Future of the UK Life Industry, Time to Invest in Mass Market Retirement"

By 31 December 2014, 20 per cent. of the Financial Times Stock Exchange Index's top 100 companies had completed a partial or full transfer of the pension risks associated with their defined benefit pension schemes to an insurer. Despite this activity, as at 31 December 2014, only 5 per cent. of the total £1.8 trillion defined benefit pension liabilities in the UK had been transferred to insurers as illustrated in the graph below.[6] Accordingly, management considers that there is high growth potential in the market in which the Group operates and that strategic options may exist for the Group through funded reinsurance transactions for annuity liabilities and/or further acquisition opportunities.

£1.8 Trillion Defined Benefit Liabilities



Much of the market is intermediated through employee benefits consultants and other advisers who help facilitate transactions and advise trustees and corporate sponsors who wish to reduce or eliminate the risk associated with their pension obligations.

6 Source: The Pensions Regulator Purple Book 2014.

2.2 ***Market growth factors***

The growth in the market in which the Group operates is attributable to a number of key underlying structural features which represent fundamental changes to the insurance industry in recent years. Such features include:

- the introduction of the Pensions Act and the Pensions Regulator conferring significant powers on scheme trustees, including in relation to a company's strategic corporate activities (for example, mergers and acquisitions) with the aim of ensuring that scheme members' interests are adequately protected and/or enhanced, which has had the effect of moving defined benefit pension obligations up the corporate capital structure;

- equity market investors are increasingly discounting company stock valuations to embed the value of defined benefit pension schemes at a fair market value or at the cost of executing a full buy-out. As a result, companies may seek to protect their company stock valuations and enhance value by removing their pension scheme exposures through undertaking a de-risking transaction;

- legislative change has meant that defined benefit pension scheme trustees have greater powers to influence corporate activities and restrict the flexibility to companies to undertake strategic transactions (for example, mergers and acquisitions) without taking into account the de-risking of the defined benefit pension scheme, which has resulted in increased funding demands. To remove potential obstacles and enhance their flexibility, companies are willing to de-risk and remove their pension scheme exposures;

- an increased focus of companies and defined benefit pension schemes on de-risking scheme assets and on liability management, with corporate management teams acknowledging the need to pursue full de-risking transactions to permanently remove the risks associated with defined benefit pension schemes from corporate balance sheets;

- the quality of advisers facilitating transactions is increasing and the extensive number of precedent transactions has provided such advisers with more experience to deal with the intricacies of these types of transactions;

- trustee education and the acknowledgement of longevity and market risks associated with the defined benefit pension schemes have evolved as the industry for pensions de-risking transactions has matured. These factors have facilitated companies and pension schemes being more willing to pursue de-risking transactions;

- the bulk annuity sector has been relatively insulated from, and unaffected by, the changes implemented by the 2014 budget in the United Kingdom. The volumes in this sector have been robust and demand from pension schemes to undertake pensions de-risking transactions has remained high; and

- more than 80 per cent. of defined benefit pension schemes are now closed and defined benefit pensions are no longer offered to new employees as a benefit. Companies are therefore not incentivised to maintain a pension scheme and are willing to de-risk the liabilities.

As a result of these changes, companies and defined benefit pension schemes have become increasingly aware that funding pension plans and/or implementing partial risk management actions in respect of pension plans do not desensitise all of the market, economic and longevity risks associated with their defined benefit pension schemes. As a result, companies and defined benefit pension schemes are more actively considering, and working towards, full buy-out transactions in order to de-risk their pension plans. Management considers that the continuation of this trend is encouraging for the Group and its ability to continue to source new business.

2.3 ***Other market participants***

The principal participants in the market in which the Group operates include the Group, Aviva, Legal & General, Pension Insurance Corporation and Prudential. Just Retirement and Partnership Assurance also compete to acquire medically underwritten bulk annuities. A number of other insurance companies (for example, Scottish Widows) have also indicated that they are considering entering the market.

2.4 ***Market drivers***

In light of the increased growth in the market in which the Group operates and interest from companies and defined benefit pension schemes in pursuing full de-risking solutions, there are a number of key drivers which are likely to affect the volume of transactions in such market.

2.4.1 *Scheme affordability and interest rates*

The most significant driver of volumes in the market is the affordability of pensions for companies and defined benefit pension schemes, which is most directly affected by the level of real interest rates. As real interest rates increase, generally yields on the assets held by defined benefit pension schemes also increase, which results in the liabilities held by such defined benefit pension schemes being discounted at a higher rate. This has the effect of reducing the size of those liabilities and makes de-risking transactions more economically beneficial for companies and defined benefit pension schemes. The opposite is also true when real interest rates fall. Any increase in real interest rates is expected to add materially to the number of de-risking transactions undertaken by companies and defined benefit pension schemes.

2.4.2 *Regulatory changes to insured annuities*

The Group also actively pursues opportunities to acquire portfolios of annuities through reinsurance transactions or Part VII Transfers. The total value of in-force annuities in the UK is estimated to be approximately £300 billion. With the introduction of legislative and regulatory changes such as Solvency II and alterations to the taxation treatment of pension schemes that will provide greater flexibility to individuals in relation to their annuities, a number of annuity businesses in the market have become, or will become, non-core. This may provide the Group with alternative growth opportunities similar to its acquisition of Paternoster Limited in 2011 or RAL in 2014, as other participants look to divest this type of business. Such regulatory changes may present reinsurance opportunities such as the Group's reinsurance of £1.07 billion of annuities from ZAL for an interim period pending the legal transfer of the annuity portfolio to the Issuer, pursuant to a Part VII Transfer.

3 Business of the Group

3.1 ***Overview of the Group's business, services and products***

As noted above, the Group's principal business activities involve the provision of wholesale insurance annuity products to defined benefit pension schemes and other insurance companies through:

- conducting buy-in and buy-out transactions for defined benefit pension schemes; and
- acquiring bulk annuities through the reinsurance and/or the acquisition of portfolios of in-force annuities from other insurance companies, as well as through strategic acquisitions of other insurance companies specialising in annuities.

Such insurance solutions are tailored to meet the specific needs of the relevant company or defined benefit pension scheme. There are two primary reasons why bulk annuity products are utilised by companies and defined benefit pension schemes:

- first, as a means of transferring the risks and liabilities deriving from obligations owed by defined benefit pension scheme trustees to their members, from such defined benefit pension scheme to an insurance company; and
- secondly, to transfer the obligation of defined benefit pension scheme trustees to pay any benefits accruing under insurance policies to an insurance company, through the issuance of individual annuity insurance policies to policyholders.

The Issuer and RAL are authorised by the PRA and regulated by the PRA and the FCA to write long-term insurance covering certain specific risks associated with their clients' pension obligations. As noted above, all new business within the Group is currently written by the Issuer.

3.2 ***Strategy and business philosophy***

The Group's primary objective is to take advantage of the significant opportunity in the structurally high growth pensions de-risking market, as well as to protect and reinvest surplus capital to fund further growth without absorbing market volatility. The Group also seeks to generate stable returns for the Shareholders and consistent underlying earnings, while providing for the certainty and security of pension payments to policyholders by writing bulk annuity and other bespoke insurance solutions that correspond to the Group's risk tolerance and return metrics. The Group focuses on selecting transactions that offer the most attractive returns for the Shareholders, taking into account the associated risks and capital required, while also trying to ensure the security of pension payments to policyholders.

The Group aims to deliver this objective through a strategy involving three key elements, as outlined below:

(a) protecting the Group's in-force balance sheet through:

- a conservative, economic capital-based approach to underwriting;
- a risk management framework that utilises an integrated asset, liability, capital and risk infrastructure;
- avoiding unrewarded and unnecessary risks to protect the balance sheet and so ensuring surplus capital can be deployed to grow the business; and
- a focus on a robust solvency position which safeguards the security of policyholders;

(b) achieving growth through writing value-driven new business by:

- an approach to the origination of business across the market cycle and different transaction types that focuses on quality rather than volumes;
- focusing on the allocation of the Group's capital on new business opportunities that offer the highest value for the Group within its risk tolerance; and
- pursuing a range of new business opportunities including organic growth, acquiring secondary assets and undertaking strategic acquisitions; and

(c) safeguarding the Group's brand and culture through:

- building the Group's business on a foundation of stable long-term relationships and avoiding opportunities that may be speculative;
- supporting a risk-management-focused and solutions-driven culture to facilitate the Group being regarded as a trusted counterparty to major UK and global companies;

- maintaining excellence in the delivery of services to the Group's clients and policyholders; and
- recruiting and retaining experienced professionals within the financial services industry.

This strategy is supported by the Group's business philosophy, as set out below:

- **proprietary risk management technology, systems and infrastructure**:
  - sophisticated and integrated systems operated by the Group ensure daily capital and risk reporting, which allow the Group's trading team to manage all aspects of the balance sheet dynamically, react appropriately to evolving market conditions and maintain capital efficiency;
  - the Group utilises a high degree of automation and high-technology systems to allow outsourced administration platforms to interact with the Group's risk systems, in order to minimise discrepancies and ensure the highest levels of customer service; and
  - the Group adopts a cautious and controlled approach to risk underwriting, which it combines with quantitative analysis and detailed legal and operational due diligence carried out by a specialist team;
- **specialist asset management strategy**: the Group's investment team identifies long-term investments which provide the appropriate returns to the Shareholders while minimising the exposure of the business to credit and market risks;
- **strategic use of reinsurance**: the Group adopts a strategy of ceding longevity risks to reinsurers in order to reduce exposure to longevity risk and counterparty risk. Ceding longevity risks through entering into longevity swaps also helps reduce long-term counterparty risk. Collateral arrangements are also established with reinsurers to further mitigate counterparty risk;
- **long-standing capital efficient annuities model with low leverage**: the Group's capital model has been developed to be efficient and to optimise the economic capital requirements of writing bulk annuities. Management considers that the Group's annuities model is more efficient when compared with the annuities models of other market participants, which it believes is attributable to the Group's asset strategy, strategic use of reinsurance and its risk management framework, and will assist the Group in transitioning effectively to the Solvency II framework, which is discussed in further detail in "*Risk Factors*", "*Description of the Issuer and the Group – Transition to Solvency II*" and "*Regulatory Overview*";
- **consistent new business growth, profits and cash generation**: the Group's dedicated and experienced marketing and origination team sources new wholesale annuity business opportunities, ensures disciplined selection of new business, promotes such opportunities to the Group and maintains long-term relationships with intermediaries such as employee benefits consultants and other advisers; and
- **select equity ownership**: as noted above, the shares in RHUK are held by a select group of institutional shareholders.

The Group's business philosophy has been developed with a strong focus on risk management, which plays a crucial and critical role in writing bulk annuity and other bespoke insurance solutions and aligns with the Group's objective of generating stable shareholder returns while providing for the certainty and security of pension payments to policyholders. Management considers that such focus helps it ensure that the business underwritten and managed by the Group meets or exceeds the return on capital targets set by the Shareholders. The Group's approach to risk management is discussed in "*Risk management*".

3.3 ***New business origination***

The Group originates new business with the assistance of a team comprising very experienced insurance and pensions professionals who are experts in their relevant fields. The team focuses on a solutions-driven approach through the disciplined selection of new business opportunities and is a market leader in the execution of large transactions. The Group has completed many types of pensions de-risking transactions, including buy-in transactions, buy-out transactions, longevity reinsurance transactions and reinsurance-related acquisitions. Such transactions have ranged in size from £60 million to £3.1 billion and 10 such transactions involved the coverage of liabilities in excess of £400 million at the time of their completion. This includes two successful acquisitions, each of which involved greater than £2.7 billion of assets being acquired by the Group. The result of such transactions is that, as at 30 June 2015, the Group directly or indirectly insured over 230,000 underlying policyholders across 172 pension schemes.

3.4 ***Key services and products***

As noted above, the Group conducts buy-in and buy-out transactions for companies and defined benefit pension schemes in the UK. In addition, the Group sources wholesale annuity business through reinsurance transactions and/or by acquiring insurance companies or their in-force annuity portfolios.

A summary and explanation of these three product categories is as follows:

- **bulk annuity pension buy-in transactions**: a defined benefit pension scheme acquires a bulk annuity policy from the Issuer under which the Issuer agrees to pay to the defined benefit pension scheme trustee certain specific benefits that may become payable to all or a portion of the defined benefit pension scheme's members and their eligible dependants for as long as they live. The responsibility and obligation for payment to the defined benefit pension scheme's members remains with the defined benefit pension scheme. As a result, the bulk annuity policy insures the pension benefit payments due to be paid by the defined benefit pension scheme to the relevant portion of such defined benefit pension scheme's members and the defined benefit pension scheme holds the bulk annuity policy as an investment. This type of transaction is often a first step towards a pension buy-out;

- **bulk annuity pension buy-out transactions**: a defined benefit pension scheme acquires a bulk annuity policy from the Issuer under which the Issuer agrees to pay all pension benefit payments due to all of the defined benefit pension scheme's existing members, and the defined benefit pension scheme is subsequently wound up entirely by the defined benefit pension scheme trustee. For an interim period prior to such winding-up, the Issuer pays to the defined benefit pension scheme trustee all of the current benefits payable to the defined benefit pension scheme's members. During this period, the responsibility for payments to the members of the pension scheme remains with the trustee of the defined benefit pension scheme while the Issuer prepares to take on the administration of such payments. After the Issuer completes such preparations, the bulk annuity policy is replaced with a collection of individual policies which are then issued to each member of the defined benefit pension scheme, with the effect that such members become policyholders of an annuity issued by the Issuer and the original defined benefit pension scheme no longer exists. Many of the Group's bulk annuity arrangements begin as buy-in transactions and will likely evolve into buy-out transactions over time as trustees take the necessary steps to wind up their defined benefit pension schemes; and

- **reinsurance**: an insurance company enters into a reinsurance agreement with the Issuer under which the Issuer agrees to insure a specified number of annuity obligations that have previously been acquired by the insurance company. Upon entering into such

agreement, the Issuer becomes responsible for the payment of a defined number of pension payments on behalf of the insurance company, in consideration for the Issuer receiving an upfront premium from the insurance company. This upfront premium is typically paid by the insurance company transferring assets to the Issuer. Reinsurance is often followed by a full legal transfer to the Group of the underlying annuities that have been insured by it, pursuant to a Part VII Transfer (at which point the Group becomes the insurer).

3.5 ***Summary of business written by the Issuer***

The table below shows the value of new business premiums written by the Issuer from 1 January 2012 to 30 June 2015,[7] including acquisitions and reinsurance transactions but excluding longevity reinsurance transactions.

Summary of Business Written by the Issuer

	2012 (£)	**2013 (£m)**	**2014 (£m)**	**2015 H1 (£m)**
Pension buy-ins and buy-outs	1,027	1,373	1,406	660
Acquisitions and reinsurance transactions (net insurance liabilities)	0	0	2,709	1,070
Total	1,027	1,373	4,115	1,730

3.6 ***Growth in new business volumes***

The Group achieved new business volumes of £1.7 billion[8] for the half year ended 30 June 2015 and £4.1 billion[9] for the 2014 financial year.

Consistent growth in new business has been achieved through a mix of organic growth and from undertaking selective acquisitions. Organic growth has been facilitated by effective transaction structuring, transaction execution and a disciplined approach to underwriting.

The table below summarises the cumulative new business volumes of the Group since 2008. The cumulative new business of the Group since this time, up to and including 30 June 2015, was £18.1 billion.

Cumulative New Business

Year	**Organic new business (£bn)**	**New business from acquisitions (£bn)**	**Total (£bn)**
2008	0.7	–	0.7
2009	3.0	–	3.0
2010	4.3	–	4.3
2011	6.7	3.0	9.7
2012	7.7	3.0	10.7
2013	9.3	3.0	12.3
2014	10.8	5.7	16.5
HY 2015	12.4	5.7	18.1

7 This table does not include the acquisitions and reinsurance transactions written by the Issuer that are listed in the summary table of transactions in the section headed "*Description of the Issuer and the Group – Selected transactions executed by the Issuer*" which were executed prior to 1 January 2012 or after 30 June 2015.

8 The calculation of new business volumes includes the £1.07 billion reinsurance transaction with ZAL and the £644 million buy-out transaction in relation to the Lehman Brothers Pension Scheme. The calculation of new business volumes does not include the £1.6 billion buy-in transaction in relation to the Civil Aviation Authority Pension Scheme.

9 Includes the acquisition of RAL.

3.7 ***Selected transactions executed by the Issuer***

Set out below is a summary of selected buy-in, buy-out and reinsurance transactions undertaken by the Group through the Issuer. Except as otherwise indicated, each of the transactions listed below has been completed in all material respects.

Selected Transactions Completed by the Issuer

Airways Pensions Scheme	£2.9 billion buy-in transactions and follow-on longevity swaps	2010-2013
Paternoster Limited	£2.9 billion acquisition	January 2011
Metlife Assurance Limited[10]	£2.7 billion acquisition	May 2014
RSA Insurance Group Pension Scheme and SAL Pension Scheme	£1.9 billion buy-in transaction	July 2009
Civil Aviation Authority Pension Scheme	£1.6 billion buy-in transaction	July 2015
Zurich Assurance Ltd[11]	£1.07 billion reinsurance transaction	April 2015
Uniq plc Pension Scheme	£837 million buy-out transaction	December 2011
Rank Pension Plan	£700 million buy-out transaction	June 2008
Merchant Navy Officers Pension Fund	£689 million buy-in transaction	December 2012
Lehman Brothers Pension Scheme	£644 million buy-out transaction	April 2015
InterContinental Hotels UK Pension Plan	£427 million buy-out transaction	August 2013
Cobham Pension Plan	£282 million buy-in transaction	July 2013
General Motors Retirees Pension Plan	£229 million buy-in transaction	October 2012
TI Group Pension Scheme	£148 million buy-in transaction	September 2011
Smith & Nephew UK Pension Fund and Smith & Nephew UK Executive Scheme	£192 million buy-in transaction	January 2013

3.8 ***Acquisition of RAL by the Issuer***

As noted above, on 16 May 2014, the Issuer acquired 100 per cent. of the ordinary shares of RAL for cash consideration of £421.4 million. RAL (previously known as Metlife Assurance Limited) operated the specialist bulk annuity pension business of Metlife and, at the time of the acquisition, had £3.174 billion in assets under management and £2.696 billion of liabilities. The acquisition of RAL contributed to the Issuer's total new business volumes of £4.1 billion for the 2014 financial year. The transaction was accretive to the Issuer from a net asset value, capital and MCEV perspective. Management considers that the transaction was consistent with the Group's strategy to supplement organic growth through acquisitions.

10 Management expects that the transaction will complete following the receipt of court approval for the transfer to the Issuer of the legal title to the insurance policies currently held by RAL, pursuant to a Part VII Transfer.

11 The Issuer is currently undertaking a Part VII Transfer in relation to ZAL, which management expects will complete shortly after court approval is received for the transfer of the legal title to the Issuer of the annuity portfolio from ZAL.

The fair value of the assets and liabilities of RAL at the time of the acquisition was as follows:

Fair Value of the RAL Acquisition

	Fair value recognised on acquisition (£000s)	**Previous carrying value (£000s)**
Financial investments	3,039,214	3,039,214
Receivables	67,963	69,963
Cash and cash equivalents	66,567	66,567
	3,173,744	3,175,744
Insurance contract liabilities	(2,623,545)	(2,687,945)
Payables	(72,405)	(72,405)
	(2,695,950)	(2,760,350)
Total Identifiable net assets	477,794	415,394
Gain on bargain purchase arising on acquisition	(56,413)	
Total consideration	421,381	

3.9 ***Underwriting of new business by the Issuer***

The underwriting cycle in the context of the Group's business involves the transfer by a pension scheme of pension premiums and full liabilities to the Issuer, in exchange for the Issuer transferring insured benefits to such pension schemes to facilitate the payment of pension benefits to its members. The Group adopts a meticulous approach to the underwriting of new business as part of risk management strategy, which involves evaluating and quantifying the key risks associated with acquiring pension annuity liabilities prior to the completion of a transaction. The Group's approach to risk management during the underwriting cycle can be summarised as follows:

- securing certainty of insured benefits, clarity of contracts and operational precision in order to reduce operational risk, which requires the Group to undertake significant due diligence in order to assess the new business, which is discussed in more detail below;
- achieving certainty of cash flows through selective use of longevity reinsurance in the form of longevity swaps in order to mitigate longevity risk. This results in liabilities being fixed for improved asset and liability matching;
- hedging interest rate and inflation exposures through the use of collateralised and marked-to-market swaps in order to reduce the interest rate and inflation risk inherent in the underlying pension liabilities, as well as the assets that the Group invests in. This requires the Group to adopt proprietary risk management strategies, which are discussed in more detail in "*Description of the Issuer and the Group – Risk management*";
- adopting a strategy to secure an illiquidity premium with minimal credit risk in order to mitigate investment and counterparty risk. This also requires the Group to adopt proprietary asset management strategies, which are discussed in more detail in "*Description of the Issuer and the Group – Investment management*"; and
- strong focus on ongoing risk evaluation, monitoring and mitigation through daily profit and loss and solvency monitoring in order to reduce balance sheet and solvency volatility. This requires the Group to adopt a strong risk management focus, which is discussed in further detail in "*Description of the Issuer and the Group – Risk management*".

The Group's underwriting team comprises actuarial, pensions, operational, trading, investment and legal expertise. The Group operates an integrated asset-liability risk model and benefits from sophisticated computer systems that allow all pension liability acquisitions to be assessed in real time against prevailing market conditions and other investment opportunities. This approach allows the Group to be opportunistic where value is identified and responsive to clients' needs, while also protecting the Group's balance sheet by ensuring that underwriting standards are continually maintained to enable the Group to achieve its objectives.

In broad terms, the process adopted by the Group when it is considering whether to underwrite new business is as follows:

- **modelling**: each underlying policyholder is due a prescribed set of payments over time. The Group models and projects these payments individually to ensure that the value and timing of such payments is correct. This process requires the Group to carry out extensive legal and administrative due diligence in relation to an investment opportunity. The underwriting team conducts extensive due diligence consistent with the highest standards in the industry to quantify and mitigate operational and data-related risks prior to the completion of a transaction;

- **longevity analysis**: the Group carries out detailed demographic analysis of an investment opportunity using proprietary information, projection models and a substantial experience database. In many instances, the Group also underwrites alongside its specialist life reinsurance partners to ensure that the Group's longevity analysis of an investment opportunity is consistent with such partners, in order to further mitigate any risks associated with such investment opportunity;

- **investment management**: the Group adopts a conservative investment strategy and uses cash flow projections to identify suitable available investment opportunities and assess whether they are consistent with its low-risk asset strategy. This process takes into account the relevant projected term of the business acquired;

- **risk management**: the Group reviews and evaluates the cost of hedging both market and demographic risks associated with an investment opportunity, assesses residual risks in the context of the Group's risk appetite and low-risk asset strategy and quantifies reserves for any remaining unhedgeable risks that are associated with an investment opportunity;

- **capital management**: management evaluates the underlying characteristics of the new business in the context of the Group's investment and risk management strategy to determine the capital utilisation, profitability and return metrics for the new business that the Group would be able to achieve should it underwrite the new business;

- **deal assessment**: all investment opportunities are subject to a rigorous approval process involving the Group's senior executives, relevant committees and, if required, the board of the Issuer and RHUK and the Shareholders. The Group also ensures the PRA and FCA are informed and any required permissions are sought appropriately; and

- **due diligence, contracts and execution**: additional confirmatory due diligence is completed in relation to an investment opportunity should it be required. Agreements are negotiated, agreed and executed by the Group's legal team. The Group aims to agree thorough contractual terms to reduce the risk of any future uncertainties.

This approach to underwriting assists the Group in selecting and executing investment opportunities that are consistent with its desired risk profile and strategic aims by ensuring that (i) the risks and liabilities associated with an investment opportunity are well understood and can be minimised, (ii) such investment opportunity is documented and priced appropriately, and (iii) such investment opportunity is capable of being hedged efficiently and accurately.

3.10 ***Investment management***

3.10.1 *Asset and liability management*

As at 30 June 2015, the Group had assets under management of £14.1 billion. The Group's asset portfolio is managed in-house by a specialist investment team whose primary objective is to earn secure returns for the Group by investing in low-risk assets that benefit from collateral, hedging arrangements or other security, and extract value from any illiquidity associated with such assets. The Group's asset management activities integrate with the underwriting, risk and capital management functions of the Group.

In broad terms, the Group's current approach to asset management is to minimise outright credit default risk through collateral, credit protection or other structural security, which is facilitated by investing in fixed income instruments which are used to match the Group's long-term annuity liabilities, through an optimal combination of liquid investments, low-risk government bonds, less liquid assets and highly secured or collateralised investments, as well as cash. The Group aims to continually increase the rate of recovery on its investments in order to reduce the risk of credit losses.

The Group's limited appetite for outright credit default risk has resulted in an asset portfolio in the form of government guaranteed bonds and other assets with explicit structural security. As at 30 June 2015, the Group's asset portfolio mix comprised the following categories of investments:

- **government and supranational bonds**: 37 per cent. of the Group's portfolio was invested in low-risk government and supranational bonds, of which the majority were UK government bonds. This portion of the portfolio supports very long-dated cash flows but is also available to meet collateral calls and cash requirements should more cash be required by the Group;

- **secured residential lending**: 20 per cent. of the Group's portfolio was invested in secured lending against property or other collateral. Many of these investments are bespoke where very high levels of collateral have been negotiated and returns are generated through an illiquidity premium;

- **other secured lending**: 18 per cent. of the Group's portfolio was invested in other secured lending, including in the form of bilateral arrangements and total return swaps;

- **infrastructure**: 7 per cent. of the Group's portfolio was invested in regulated infrastructure such as water, energy and transportation. These investments are typically long-dated and secured by segregated low-risk cash flows;

- **cash**: 6 per cent. of the Group's portfolio was invested in immediately realisable cash investments, including overnight cash funds; and

- **other assets**: 12 per cent. of the Group's portfolio was invested in other assets, including universities, non-profits, commercial real estate assets and highly rated corporate bonds with a negative basis risk premium. Such corporate bonds are packaged with credit default protection.

Management considers that this combination of assets is appropriate for the Group to reduce and mitigate its credit risk, particularly given that this asset mix incorporates the use of security such as collateral provisions, structural features, enhancements and sovereign support from the UK as well as other highly rated sovereigns. This enables the Group to maintain a relatively low and manageable return target due to the low capital requirements associated with its investment portfolio. Such asset mix also assists to reduce balance sheet volatility resulting from credit spread volatility, in order to protect the capital surplus. The Group is also focused on ensuring that it achieves appropriate

asset and liability cash flow matching. The durations of assets and liabilities are maintained within prescribed limits and management considers that the Group maintains sufficient liquidity buffers. The Group did not experience any defaults in relation to any of its assets during 2014 or the first half of 2015.

The composition of the Group's investment assets within its asset portfolio as at 30 June 2015, as categorised and calculated by management on a basis consistent with management's summary clarifications with respect to the asset portfolio of the Group, are set out in the table below:

Investment Assets as at 30 June 2015

	HY2015 (%)
UK sovereign and supranational bonds	37
Secured residential lending (ground rents, covered bonds and social housing)	20
Other secured lending (tri-party repo, bilateral arrangements and total return swaps)	18
Infrastructure (transportation and utilities)	7
Cash (UCIT funds)	6
Other (universities, non-profit, commercial real estate and negative basis)	12

3.10.2 *Collateral and liquidity management*

Given that a significant amount of the Group's investment portfolio is less liquid, management considers that it is important for the Group to manage its collateral held against those investments and hold substantial liquidity buffers at all times in order to minimise the Group's liquidity risk associated with potential liquidity calls. To achieve this, the Group operates a liquidity management framework which stress tests and reports liquidity continually to ensure that sufficient cash and liquid securities (primarily Gilts) are available to the Group at all times. In addition, the collateral received as part of the investments made by the Group is stress tested to ensure that the security of such investments is not compromised as a result of market-wide liquidity stresses. The Group's collateral and liquidity management functions are overseen by a dedicated treasury operations team and a trading desk.

3.11 ***Risk management***

As part of the Issuer entering into buy-in, buy-out and reinsurance transactions, the Issuer assumes specific risks associated with its clients' obligations to members of their defined benefit pension schemes and/or policyholders. The primary risks transferred to the Issuer as part of such transactions include interest rate risk, inflation rate risk, exchange rate risk, investment risk and longevity risk. The Group also faces credit default risk, counterparty default risk, insurance risk, liquidity risk, operational risk and regulatory risk. For a further explanation of these risks, see the section headed "*Risk Factors*". Given that the obligations assumed by the Group on behalf of its clients are long term in nature, the mismanagement of these risks, or any inaccuracy in calculating the value or materiality of such risks, could result in greater capital requirements and/or increased capital volatility. This, in turn, may create uncertainty regarding the Group's ability to meet its obligations to policyholders and the long-term returns that may be realised for the Shareholders.

As a result, the Group operates a strong risk management and control framework and considers that the management of this framework is fundamental to the success of its business. The Group's risk framework is driven by a focus on the following principles:

- ensuring that the Group is in a position to make timely payments to policyholders over the long term;
- producing stable earnings and dividend cash flows from the Group's in-force business for the benefit of the Shareholders; and

- limiting other risks inherent in the Group's business.

Management considers that the Group's focus on risk management helps it preserve value, achieve stable earnings and maintain a strong solvency position in order to support further growth.

3.11.1 *Risk management and control framework*

As noted above, the Group monitors and controls its exposure to risk through a comprehensive risk management and control framework that encompasses the management of its in-force business and new business underwriting. Management considers that there are three key elements to its risk management and control framework, as follows:

- an integrated infrastructure system which captures all assets and liabilities centrally and provides the Group with the capability to report and monitor risk daily, at the portfolio and the individual transaction level;
- close co-ordination of the Group's underwriting, reinsurance, investment and risk hedging functions to ensure that the pricing of new business reflects the latest market conditions, hedging costs and the results of a comprehensive liability analysis of such new business; and
- a risk and capital management control function that provides continuous monitoring of risk exposures and the daily attribution of profit and loss, which allows for the information to be provided to management in a timely manner and enables effective risk-based decision making.

Management adopts a strategy for the Group's risk management control framework to mitigate and minimise the operational risks, longevity risks, interest rate and inflation risks, and investment and counterparty risks that are assumed by the Group when entering into buy-out, buy-in or reinsurance transactions, as well as to manage the Group's balance sheet and solvency volatility.

3.11.2 *Approach to risk management*

To facilitate the Group effectively managing its risk management and control framework described above, the Group adopts a low-risk approach to managing its assets and liabilities, which involves the following activities:

- **trading and risk management**: sophisticated systems operated by the Group ensure daily capital and risk reporting with a mark-to-market valuation approach for all assets and liabilities, which allow the Group's trading team to manage all aspects of the balance sheet dynamically, react appropriately to evolving market conditions, maintain capital efficiency and facilitate a dynamic hedging approach based on early market indicators. Management adopts risk limits which aim to ensure that the Group achieves stable earnings and a stable solvency position. Risk-tolerance thresholds in relation to market, counterparty, demographic and longevity risks are determined by reference to the Group's overall risk appetite and capital position. Management also adopts a reserving approach which establishes the capital requirements for un-hedged risks, the purpose of which is to ensure that the level of capital held by the Group corresponds with the price of those risks, had they been hedged. Management considers that the Group also holds an appropriate amount of capital to cover risks that cannot be hedged by the Group or cannot be hedged efficiently due to the lack of a suitable market for pricing such risks. The type of risks that cannot be priced include residual counterparty exposure against the Group's reinsurers and asset counterparties;

- **regulatory capital**: the daily calculation of all capital and solvency positions is undertaken to (i) help maintain the consistency of risk and capital management and protection of the Group's balance sheet, and (ii) allow the Group to be highly responsive to regulators;

- **investment management**: the Group's investment team identifies long-term investments which provide the appropriate returns to the Shareholders while minimising the exposure of the business to credit and market risks. The impact of investment trading and origination on risk and capital are identified in advance of execution. The Group also manages investment risk by negotiating enhanced structural security, seniority, protection and sovereign support, thereby minimising potential losses in the event of default by a counterparty;

- **new business origination**: the Group's dedicated and experienced marketing and origination team sources new wholesale annuity business opportunities, ensures disciplined selection of new business, promotes such opportunities and new business to the Group and maintains long-term relationships with intermediaries such as employee benefits consultants and other advisers. The Group's approach to underwriting also reflects current prevailing market conditions, capital position and investment opportunities to maximise prospective returns and control risks;

- **collateral and liquidity management**: changing market conditions are reflected in daily two-way collateral management with counterparties to minimise credit and counterparty risk borne by the Group;

- **accounting and valuation**: the consolidated balance sheet and capital positions under the Pillars of the Solvency I and Solvency II frameworks are automatically generated on a daily basis directly from the Group's risk, trading and regulatory capital positions. This facilitates the ongoing monitoring of risk, capital and profitability positions by the Group;

- **longevity reinsurance**: entering into longevity reinsurance transactions in order to mitigate the risk of life expectancy extending beyond what is projected and create certainty in respect of the future cash flow to be paid by the Group. To achieve this, the Group works with a diversified range of global insurance counterparties and enters into highly collateralised arrangements, which has had the effect of reducing the Group's exposure to longevity risk by approximately 71 per cent. as at 31 December 2014; and

- **operating model and use of administration providers**: the Group's data, asset, liability and capital management systems are integrated on a single platform to help achieve the efficient processing of information whilst reducing the risk of errors. The Group has live data streams in place with its administrative providers to receive liability and policyholder data relating to changes in the mortality, demographics and trends of policyholders (among other things). This data is used for the purposes of the Group's assessment of the longevity assumptions it makes with respect to annuity obligations, pricing and reserving. The Group also provides to its administrative providers the payments that are due to policyholders, which is discussed in further detail below.

3.11.3 *Operating model supporting the Group's risk management and control framework*

In-house functions

The Group's operating model focuses on retaining core high value functions in-house, and, in particular, the risk and investment management functions which are essential to the Group and its subsidiaries' operations and business, including: pricing and underwriting; trading, asset and investment management; risk management; actuarial

and financial activities; quantitative statistical analysis; the legal function; collateral management; and risk control.

Outsourced functions

The Group's primary obligation is to pay its policyholders as and when their benefits fall due in accordance with the terms of their policies. To manage the process of assessing claims and paying benefits to policyholders, the Group adopts an outsourced administration model for what are regarded as low-risk and low value functions, through utilising the services of key strategic partners. The Group has made significant investments in high levels of automation for data gathering, inputting, monitoring and payment processes to ensure that, together with the use of technology systems and quantitative analysis, the Group delivers a high quality service to policyholders. This requires timely payment of pension benefits and efficient processing of events experienced by policyholders, such as retirement.

The Group's administration partners are JLT Employee Benefits and Towers Watson, who are established pension administration providers and have a total combined experience of 141 years operating pension administration businesses. The Group prides itself on the high level of service that its administration partners provide to policyholders and the Group's operations team exercises robust oversight and control over these arrangements. The Group's service standards for itself and its administration partners are regularly reviewed by senior management and the TCF Committee. Although these administrative services are outsourced, management considers that it is essential for its operating team to remain in-house as it ensures that assets and liabilities are managed in an integrated manner, that regulatory capital and risk are a constant consideration in decision making, and investment opportunities feed into new business underwriting in real time to reduce the uncertainty of anticipated returns.

The Group and its subsidiaries' operations and the Group's policyholder administration model are scalable to accommodate significant growth ambitions without compromising the level of service offered to policyholders.

3.11.4 *Governance*

The Group's day-to-day risk management framework is overseen by the Working Level Risk Committee, whose membership comprises relevant senior managers within the Group. The Working Level Risk Committee reviews all material new investment, hedging and liability transactions.

The board of RHUK has overall responsibility for the management of the Group's exposure to risks. The board of RHUK is supported by the Audit Committee and the Board Risk Committee. These committees ensure that the management of the Group's business is conducted in accordance with the risk management framework described above. Membership of each of these committees consists of non-executive and executive directors. The Group and its subsidiaries' directors have the appropriate skills to carry out their functions on these committees, as well as significant investment, risk management, insurance, regulatory and banking experience. Management considers that the directors provide valuable insight and feedback in relation to the key aspects of the business. This governance structure enables the Group to react quickly to new events that have an impact on its risk management and control framework, whether it be new business opportunities, strategic acquisitions or significant macroeconomic events in the market in which the Group operates.

Management considers that policyholder and shareholder interests are generally aligned by the Group being managed under a significantly de-risked investment portfolio, and a comprehensive risk management and control framework. By reducing the risks inherent

in the Group's portfolio in the manner described above, the Group is able to apply its capital base towards insuring more pensions and pursuing new growth opportunities.

3.12 ***Reinsurance***

As noted above, the Group adopts a strategy of ceding longevity risks to reinsurers in the form of unfunded longevity swaps in order to reduce exposure to longevity risk and counterparty risk. Ceding longevity risks through entering into longevity swaps also helps reduce long-term counterparty risk. Collateral arrangements are also established with reinsurers to further mitigate counterparty risk.

The Group considers that reinsurance transactions are essential to its risk management framework, for the following reasons:

- while past experience of mortality rates provides a good indication of mortality rates in the future, such rates cannot be perfectly predicted given their long-term nature;
- the cost of reinsurance is typically less than the cost of capital on an economic basis;
- life reinsurers have significant capacity to transfer risk to the reinsurance market and are seeking opportunities to enter into longevity swaps in order to diversify morality risk from their term life insurance businesses; and
- there is increased visibility in the market for how longevity risks can be priced, leading to opportunities for competitive and cost-efficient transactions.

The Group currently transacts with a number of third parties in the insurance market including Prudential Retirement Insurance and Annuity Company, Pacific Life Re, Hannover Re, RBC Insurance and Reinsurance Group of America.

3.13 ***Capital management and reserves***

Under the current regulatory framework for managing solvency capital requirements, the Issuer and RAL are required to maintain sufficient capital to satisfy the capital requirements calculated on the Pillar 1 statutory basis, which is based on EU Directives, and the individual capital assessment as required by Pillar 2. For more details, see the sections headed "*Risk Factors*" and "*Regulatory Overview*".

The Group manages its business in accordance with economic capital requirements and its individual capital assessment. The Group also maintains an additional capital buffer in order to ensure that its capital reserves are at all times adequate to cover its liabilities. This conservative approach to capital management has resulted in a particularly strong capital position for the Group for the 2014 financial year, where its economic surplus as at 31 December 2014 was £830 million. The Group has taken steps to ensure that it maintains a strong position through maintaining a balance between writing profitable new business, preserving capital and generating cash. Protecting the Group's capital position through active management of risks in accordance with the risk management and control framework described above helps to ensure that the Group maintains a very high level of certainty for policyholders and safeguards the additional capital position of the Group.

The technical reserves that are required to be held by the Group to cover the claims of policyholders are calculated using actuarial methods and assumptions that ensure there are sufficient funds to pay such liabilities in the future. Under the current regulatory framework for managing solvency capital requirements, a set of assumptions is determined by the Group for its Regulatory Capital Requirements prescribed by Pillar 1 that reflect the liabilities as measured under best estimate assumptions of the PRA's solvency framework, plus a margin to allow for adverse deviation from such best estimate assumptions. Under the Group's Pillar 2 economic capital framework, suitable capital is held to cover at least a 99.8 per cent. confidence

interval, meaning that over a one-year time period there is a 99.8 per cent. probability that the value of the Group's assets will exceed the value of the best estimate of its liabilities.

In determining the liabilities of the Group under Pillar 1 and Pillar 2 under the current regulatory framework for managing solvency capital requirements, the following assumptions are made (among others):

- interest rate assumptions, based on the level of interest rate swaps that are being traded in the market;
- investment return assumptions, based on the risk-adjusted spread on the Issuer's assets; and
- longevity assumptions include an allowance for extensions to longevity trends. Such assumptions are based on industry standards, which are adjusted for scheme-specific ratings that are derived from mortality data generated by the Group.

The methodology and assumptions used to calculate the technical reserves and capital requirements for the purposes of Pillar 1 and Pillar 2 are determined by the Group's Actuarial Function Holder (being a Fellow of the Institute and Faculty of Actuaries) and are reviewed and approved by the Audit Committee and the Board Risk Committee. Such methodology and assumptions are approved by the board of the Issuer. The overall approach to the Group's economic capital position is also approved by the Audit Committee, the Board Risk Committee and the boards of the Group.

3.14 ***Transition to Solvency II***

From 1 January 2016, the framework for the management of solvency capital requirements will be replaced by Solvency II. Under Solvency II, the Group may be required to hold the greater of the capital required under the new Pillar 1 framework and the capital required under its own economic capital models, known as Pillar 2. Current projections prepared by the Group suggest that the capital required for the Group under the new Pillar 1 framework will exceed that required under the Group's own economic capital models.

Under Pillar 1 for Solvency II, the Issuer and RAL will be required to hold sufficient assets to meet:

- the liabilities of the company calculated on a best estimate basis (the "**BEL**");
- the cost of transferring non-hedgeable risks (known as the risk margin); plus
- the capital required to meet a one-in-200-year stress test over the remaining lifetime of in-force business (calculated on a prescribed basis and known as the Solvency Capital Requirement).

For most insurance business, the BEL must be discounted using a prescribed risk-free discount rate. However, firms with illiquid liabilities such as annuity businesses can apply to discount these illiquid liabilities using the risk-free rate plus the matching adjustment. The matching adjustment is broadly equivalent to the illiquidity premium that can be earned on the illiquid assets held to support illiquid liabilities. The Issuer and RAL have applied to the PRA and the FCA to use the matching adjustment for the majority of their business. The Group already closely matches assets and liabilities and the Group's conservative investment strategy is consistent with the buy and hold requirements of Solvency II. In order to use the matching adjustment, from 1 January 2016, the Group will be required to operate two separate funds for the Issuer and RAL, being a matching adjustment fund and a non-matching adjustment fund. In its application, the Group has applied for permission to use the matching adjustment for almost all of its single premium insurance business and has set out why the Group believes that the majority of its assets are matching adjustment eligible. Regular premium business will be

held in the non-matching adjustment fund along with other non-matching adjustment eligible assets and liabilities.

In addition, under Solvency II, insurers have the option of calculating their solvency capital requirements either using the prescribed basis (the "**Standard Formula**") or applying to use their own internal economic capital model. The Group is in the process of applying to use its own internal economic capital model for calculating its Solvency Capital Requirement in relation to credit risk, but intends to use the Standard Formula for all other risks. As noted above, the Group is therefore applying to the PRA and the FCA for approval to use a partial internal economic capital model because the capital requirements under the Standard Formula for credit spread risk depend on a somewhat arbitrary classification of structured and collateralised investments and rely on public credit ratings. Management considers that, in the context of the Group's investment management framework, Solvency II does not provide the appropriate allowances for unrated assets with strong security, collateral or other structural protection of the type in which the Group has specialised. Such assets are fundamental to the Group's business model and hence the Group has developed a partial internal model which makes proper allowance for underlying security protection.

Management considers that it is well prepared for the transition to the Solvency II framework. The Group has applied to utilise transitional relief which, if granted by the PRA and the FCA, is likely to provide the Group with sufficient transitional capital to ensure that its capital surplus position on 1 January 2016 is the same as under the current solvency regime. This will allow the Group to phase in the impact of Solvency II to its existing business over 16 years. New business will then be priced to allow for the additional capital required under the Solvency II regime.

Further detail on Solvency II is provided in the sections headed "*Risk Factors*" and "*Regulatory Overview*".

4 Key Financial Information as at 31 December 2013, 31 December 2014 and 30 June 2015[12]

4.1 *IFRS[13] financial performance*

A profit before tax for the first half of 2015 was achieved in the amount of £180.4 million (FY 2014: £260.0 million; FY 2013: £184.4 million). The RLL Consolidated Group focuses on profit before tax as its primary measure of profitability because this metric includes recurring and non-recurring items as well as market fluctuations, and has a direct impact on distributable reserves and capital.

The table below provides a summary of the key line items in the consolidated statement of comprehensive income for the RLL Consolidated Group for the first half of 2015 and the full 2014 financial year, and the Issuer for the full 2013 financial year.

12 The financial information contained in this section is sourced from the financial statements of the RLL Consolidated Group for the half-year ended 30 June 2015 and the financial year ended 31 December 2014 and the Issuer for the financial year ended 31 December 2013, as contained in this Prospectus.

13 The financial statements of the Issuer for the 2013 financial year were prepared in accordance with UK GAAP. The figures stated in this Prospectus for the 2013 financial year are been extracted from the financial statements of the RLL Consolidated Group for the 2014 financial year, in respect of which the relevant financial information for the 2013 financial year was prepared in accordance with IFRS applicable to the insurance industry.

Key Line Items – RLL Consolidated Group
Consolidated Statement of Comprehensive Income

Income statement highlights (£m)	**HY2015**	**FY2014**	**FY2013**
Gross Premiums Written	1,867.5	1,679.3	1,628.1
Net Premiums Written	1,615.5	1,244.2	1,266.9
Investment Return	(131.5)	1,778.9	(100.0)
Total Revenue	1,484.0	3,023.1	1,166.9
Claims Paid	(156.3)	(291.3)	(234.5)
Change in Insurance Liabilities	(1,110.7)	(2,404.1)	(701.0)
Operating Expenses	(32.6)	(61.3)	(40.0)
Finance Costs	(4.0)	(6.4)	(7.0)
Total Claims and Expenses	(1,303.6)	(2,763.1)	(982.5)
Profit Before Tax	180.4	260.0	184.4
Income Tax	(36.0)	(57.1)	(41.2)
Profit After Tax	144.4	202.9	143.2

Gross premiums written

New business premiums increased from £1.4 billion in 2013 to £4.1 billion in 2014 and were £1.7 billion for the first half of 2015.

This result differs from the gross premiums stated in the table above (an increase from £1,628.1 million in 2013 to £1,679.3 million in 2014, and £1,867.5 million for the first half of 2015) because:

- the gross premiums written include regular premiums of £136.5 million for the first half of 2015 (FY 2014: £273.6 million; FY 2013: £255.2 million) generated on the in-force business written in prior years; and
- the gross premiums written in 2014 exclude the £2,709.2 million of net insurance liabilities acquired through the purchase of RAL.

Investment return

The investment return comprises interest received on financial assets, interest payable on financial liabilities and the net gains and losses on financial assets and liabilities.

Interest received on financial assets net of interest payable on financial liabilities increased from £168.9 million in 2013 to £270.3 million in 2014 and was £177.4 million in the first half of 2015, reflecting the continuing growth in the size of the business.

The net movement in the fair value of assets including realised gains represented a loss of £308.9 million in the first half of 2015 (FY 2014: an increase of £1,508.6 million; FY 2013: a loss of £268.8 million). A large part of the loss or increase in the fair value will be offset by a similar movement in the insurance liabilities. The 2014 value also included an amount of £56.4 million, which represents the difference between the consideration paid for RAL and the net assets received.

Change in insurance liabilities

Change in insurance liabilities represents the change in the RLL Consolidated Group's gross insurance liabilities less the change in the value of the RLL Consolidated Group's reinsurance assets.

The change in insurance liabilities in the first half of 2015 was an increase of £1,110.7 million compared to an increase in insurance liabilities of £2,404.1 million for the 2014 financial year (FY 2013: £701.0 million). The 2014 change excludes the increase in the RLL Consolidated

Group's liabilities from the acquisition of RAL (the net insurance liabilities for which were £2,709.2 million as at 31 December 2014 calculated on the basis of total technical provisions of £2,763.8m less the reinsurer's share of technical provisions of £54.6m).

Assets under management

Assets under management as at 30 June 2015 were £14.1 billion, representing an increase from £12.8 billion as at 31 December 2014 and £7.5 billion as at 31 December 2013. Such increase is largely a result of new business offset by interest rate movements. These figures are derived from the consolidated statement of financial position for the RLL Consolidated Group for the first half of 2015 and the full 2014 financial year and for the Issuer in respect of the full 2013 financial year, each adjusted for reinsurance, derivatives and collateralised financing, as shown in the table below.

Assets Under Management

Assets under management (£bn)	**30 Jun 15**	**31 Dec 14**	**31 Dec 13**
Total assets	22.5	21.9	11.7
less reinsurance assets	(0.3)	(0.3)	(0.2)
less payables and financial liabilities	(8.1)	(8.8)	(4.0)
Assets under management	14.1	12.8	7.5

4.2 ***Market consistent embedded value***

The RLL Consolidated Group's supplementary financial statements are prepared on a market consistent embedded value ("**MCEV**") basis for its 2014 yearly and 2015 half-yearly financial reporting. The results have been prepared in accordance with the MCEV principles, which were published by the European Insurance Chief Financial Officer Forum in 2008 and amended in October 2009 ("**MCEV Principles**"). Management considers that embedded value reporting provides investors with a useful measure of the future profit streams of the RLL Consolidated Group's in-force long-term business and is a valuable supplement to the statutory accounts.

As the RLL Consolidated Group introduced this metric for external reporting purposes during 2014, comparatives for the Issuer in respect of the 2013 financial year are not available.

MCEV is an estimate of the realistic value of the in-force business of a life insurer. It does not include any assessment of the value of future new business (such as the franchise value of the RLL Consolidated Group). The RLL Consolidated Group calculates MCEV using the MCEV Principles summarised below:

- **Principle 4, "free surplus"**: The free surplus is the market value of any assets allocated to, but not required to support, the RLL Consolidated Group's in-force business at the valuation date.

  Plus

- **Principle 5, "required capital"**: Required capital is the market value of assets, attributed to the RLL Consolidated Group's in-force business over and above that required to back liabilities for the RLL Consolidated Group's in-force business, whose distribution to the Shareholders is restricted. Subordinated debt is excluded from this calculation.

  Plus

- **Principle 6, "value of in-force covered business"**: The value of the RLL Consolidated Group's in-force covered business ("**VIF**") consists of the present value of future profits ("**PVFP**") (where profits are post taxation shareholder cash flows from the in-force covered business and the assets backing the associated liabilities).

14 The MCEV for the Group as at 30 June 2015 was £1,383 million.

15 The MCEV for the Group as at 31 December 2014 was £1,215 million.

Less

- **Principle 7, "financial options and guarantees"**: An allowance must be made in the MCEV calculation for the potential impact on future shareholder cash flows of all financial options and guarantees within the RLL Consolidated Group's in-force business. The allowance for the time value of financial options and guarantees must be based on stochastic techniques using methods and assumptions consistent with the underlying embedded value. This MCEV Principle is not material in the context of the RLL Consolidated Group's business.

Less

- **Principle 8: "frictional costs of required capital"**: An allowance should be made for the frictional costs of required capital for the RLL Consolidated Group's in-force business. This allowance is independent of the allowance for non-hedgeable risks.

Less

- **Principle 9: "cost of residual non-hedgeable risks"**: An allowance should be made for the cost of non-hedgeable risks not already included in the calculation of the time value of options and guarantees or the PVFP. This allowance should include the impact of non-hedgeable non-financial risks and non-hedgeable financial risks. An appropriate method of determining the allowance for the cost of residual non-hedgeable risks should be applied and sufficient disclosures provided to enable a comparison to a cost of capital methodology.

4.2.1 *MCEV as at 30 June 2015 and 31 December 2014*

In accordance with the MCEV Principles summarised above, the RLL Consolidated Group's MCEV as at 30 June 2015 and 31 December 2014 is as follows:

Market Consistent Embedded Value

	30 Jun 15 (£m)	31 Dec 14 (£m)
Adjusted net worth	1,117.0	972.6
Present value of future profits	642.2	598.8
Cost of capital	(80.1)	(67.8)
Cost of non-hedgeable risks	(65.4)	(61.3)
Value of in-force business	496.8	469.7
Sub-debt	(100.0)	(100.0)
MCEV of RLL Consolidated Group	1,513.8[14]	1,342.4[15]

4.3 ***Group consolidated capital and leverage***

The gearing ratio (calculated as total debt divided by the sum of total debt and MCEV) for the Group was 14 per cent. for the half year ended 30 June 2015, which management considers to be low when compared with the gearing ratio of other market participants.

The Group's interest cover ratio (calculated as earnings before interest and tax divided by interest cost) was 36 times for the half year ended 30 June 2015 (FY2014: 26 times). The Group also calculates an interest cover ratio of 24 times when comparing the average profitability between the 2012 and 2014 financial years against the current annualised interest cost. management considers that such interest cover ratios are high when compared with the interest cover ratio of other market participants.

Group Consolidated Capital and Leverage

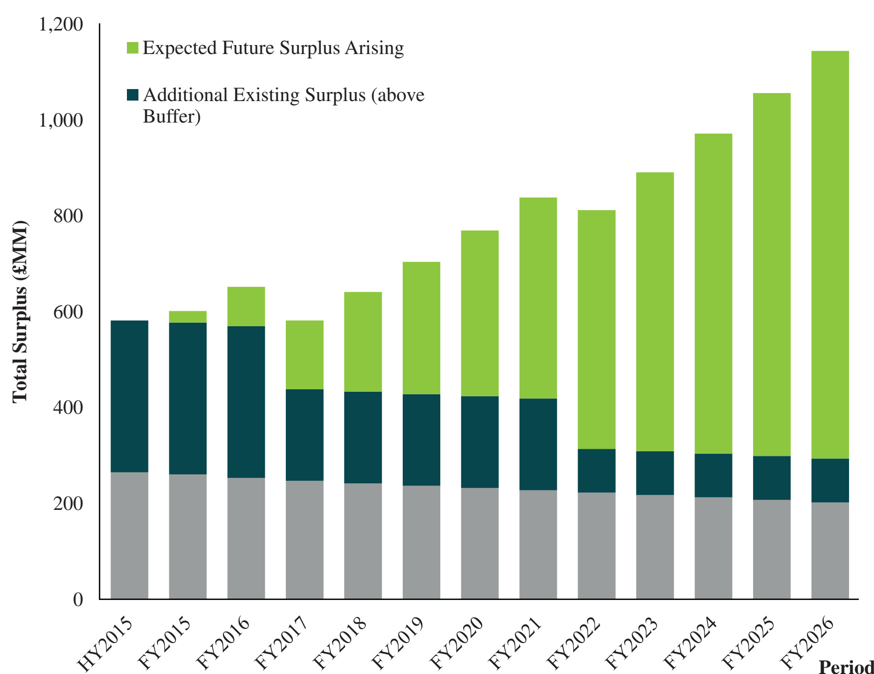
	FY2013	FY2014	HY2015
Group Leverage (%EV)	11%	16%	14%
Group Interest Cover	38x	26x	36x

4.4 ***Cumulative expected surplus arising from the Group's in-force business***

Management considers that the Group's approach to balance sheet management should result in stable projected cash flows from its in-force book if and to the extent that the best estimate is realised and the prudent margins held under Pillar 1 capital requirements unwind and are released, and absent any other factor which might or could have a negative impact on the Group's expected cash flows.

The diagram below illustrates the Group's projected surplus above 100 per cent. CRR from its in-force business until 31 December 2026, at which point the Group's cumulative surplus should exceed £1.1 billion of capital if and to the extent that the best estimate is realised and the prudent margins held under Pillar 1 capital requirements unwind and are released, and absent any other factor which might have a negative impact on the Group's projected surplus.[16]

Cumulative Expected Surplus Arising from the Group's In-force Business



4.5 ***Economic variances***

The impact of market conditions and demographic experience on actual returns can be measured by the economic variance and demographic experience variance components of IFRS profits and losses. The Issuer has achieved a result of less than 5 per cent. of pre-tax profits being attributable to such variances (averaged across the 2012 to 2014 financial years and the half year ending 30 June 2015). Management considers that this result reflects the relatively low impact that economic and demographic variances have on the profitability of the Issuer's business.

The table below identifies the economic and demographic variances expressed as a percentage of the profits before tax ("**PBT**") for the RLL Consolidated Group.

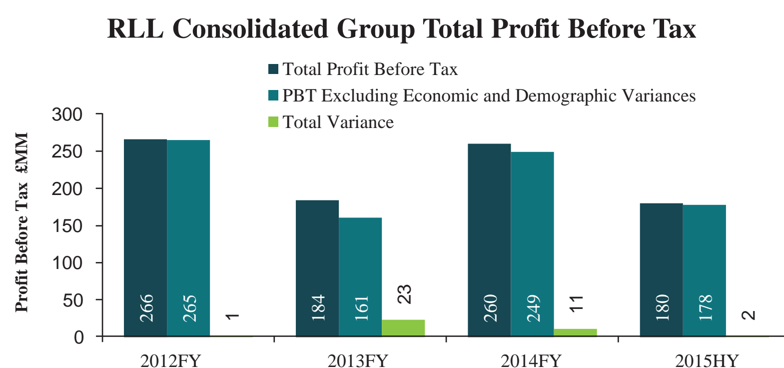
16 The projections are based on the current calculation of prudent margins held under Pillar 1 capital requirements and do not take into account any changes to the Pillar 1 capital requirements as a result of new business underwriting. The projections assume (among other things) that (i) the surplus capital buffer is measured as surplus above 100 per cent., (ii) the loan granted by the Issuer to RHUK, as detailed in the financial statements contained in this Prospectus, will be repaid in 2017, (iii) the debt granted by MassMutual to the Issuer, as detailed in the financial statements contained in this Prospectus, will be redeemed in 2022, (iv) no dividends are paid by the Issuer or the Group during this period, and (v) no new debt or other capital is issued or repaid by the Issuer. Many factors could cause actual results to differ materially from those expected or implied by the projections, as by their nature the projections involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that will occur in the future. Such projections may not be achieved, may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated. The projections are based on current market conditions as at the date of this Prospectus.

RLL Consolidated Group Economic and Demographic Variances

	FY2012	FY2013	FY2014	HY2015
Economic Variance (% of PBT)	0.6	7.2	0.2	0.7
Demographic Variance (% of PBT)	1.0	5.5	4.5	1.0

The diagram below identifies the total PBT for the RLL Consolidated Group excluding economic and demographic variances, and the total variances.

RLL Consolidated Group Total Profit Before Tax



4.6 ***In-force capital stresses***

Management considers that the Issuer has a relatively low sensitivity to market and demographic stresses. As noted above, the Issuer's in-force capital stresses are monitored on a daily basis in order to ensure that market risks are rebalanced daily.

The impact of in-force capital stresses on IFRS Net Asset Value ("**NAV**") for the half-year ended 30 June 2015 is set out below.

Impact of In-force Capital Stresses

	RLL Impact on IFRS NAV
Base Value	**£0 MM (£1,033 MM)**
Annuitant Mortality +5% qx	£94 MM (£1,127 MM)
Annuitant Mortality -5% qx	–£99 MM (£934 MM)
Interest Rate +100bps	£45 MM (£1,078 MM)
Interest Rate -100bps	–£27 MM (£1,006 MM)
Inflation Rate +100bps	£6 MM (£1,039 MM)
Inflation Rate -100bps	£96 MM (£1,129 MM)
Long-term Credit Default Assumption +10bps	–£39 MM (£994 MM)
Long-term Credit Default Assumption -10bps	£41 MM (£1,074 MM)
Maintenance Expenses +10%	–£20 MM (£1,013 MM)

4.7 ***Solvency and capital position***

As noted above, the Issuer and RAL are authorised by the PRA and regulated by the PRA and the FCA. Under the current regulatory framework for managing solvency capital requirements, the PRA prescribes two Regulatory Capital Requirements, further details of which are provided in the section headed "*Regulatory Overview*":

- Pillar 1, which specifies the formula-based capital requirements that the RLL Consolidated Group is required to hold, based on EU minimum requirements; and

- Pillar 2, which requires the RLL Consolidated Group to define its economic capital requirements based on a 99.5 percentage confidence interval over a one-year time period that the value of the assets will exceed the value of the liabilities. The RLL Consolidated Group's economic capital measure calculates the RLL Consolidated Group's one-year value-at-risk to a 99.8 percentage confidence interval, in order to maintain a capital buffer.

Under Solvency I, the Group's Pillar 1 is biting, meaning that the economic capital requirements under Pillar 1, which management considers to be reflective of the underlying risks in the business, are lower than the capital requirements imposed by the formulaic Pillar 1 framework. Management considers that this is attributable to the Group's focus on risk management and its proprietary asset management strategy.

The solvency position of the RLL Consolidated Group for the first half of 2015 and the full 2014 financial year and of the Issuer for the full 2013 financial year is set out below:

RLL Consolidated Group Solvency Position

£m (other than percentages)	**30 Jun 15**	**31 Dec 14**	**31 Dec 13**
Pillar 1			
Available Capital	1,112.9	970.9	654.1
Capital Required (CRR)	531.1	477.1	285.5
Surplus	581.8	493.8	368.6
Coverage	210%	204%	229%
Economic Capital			
Available Capital	1,887.5	1,688.7	1,065.2
Capital Required (99.8th)	990.0	758.7	584.0
Surplus	897.5	840.2	481.2
Coverage	191%	223%	182%

4.8 ***Key sensitivities to the RLL Consolidated Group's solvency position***

The risks to RLL Consolidated Group's solvency position are described in "*Risk Factors*". The key sensitivities in relation to the RLL Consolidated Group's solvency position are described in the financial statements of the Issuer for the year ended 31 December 2013 and the RLL Consolidated Group for the year ended 31 December 2014 contained in this Prospectus.

5 Dividend Policy

The Group does not have a formal dividend policy. To date, the Group has repaid an aggregate £281 million of dividends to certain Shareholders in 2013. Currently, the Group is aiming to reinvest surplus capital generated by the business to fund further growth. Any dividends paid over the near term are likely to be special dividends paid on an ad-hoc basis.

6 Board of Directors

6.1 ***Members of the boards of the Group and its subsidiaries***

6.1.1 *Keith Satchell*

Keith Satchell has been Chairman of the Group since it was founded in 2007. Mr Satchell was formerly the Chief Executive Officer of Friends Provident plc from June 1997 to December 2006 and held various management positions at Friends Provident plc from 1986 to 1997. Mr Satchell is a former Chairman of the Association of British Insurers and has previously served on boards in Switzerland, Holland, Spain, Ireland, Italy and Portugal. Mr Satchell is qualified as a fellow of the Institute of Actuaries.

Mr Satchell is appointed as Chairman to the boards of RHUK, the Issuer, RAL and RPML. Mr Satchell is also Chair of the Group's Nomination Committee, Remuneration Committee, the Solvency II Steering Committee and the TCF Committee.

6.1.2 *Antigone Loudiadis*

Antigone Loudiadis is the founder and Chief Executive Officer of the Group. Prior to establishing the business in 2007, Ms Loudiadis was a Partner of Goldman Sachs International and served as the co-head of its investment banking division in Europe. Before moving into investment banking, Ms Loudiadis was head of the European fixed

income sales division at Goldman Sachs International, having joined in 1994. Ms Loudiadis holds a Bachelor of Arts (Chemistry) degree from Oxford University.

Ms Loudiadis is appointed to the boards of RHUK, the Issuer, RAL and RPML.

6.1.3 *Thomas Pearce*

Thomas Pearce is the Managing Director and a co-founder of the Group, responsible for strategy and business development. Prior to the establishment of the Group in 2007, Mr Pearce previously held positions in the European financing group at Goldman Sachs International, responsible for covering UK life insurance companies from an asset liability management perspective. Mr Pearce joined Goldman Sachs International in 2000 and holds a Master of Arts (Economics) degree from the University of Cambridge.

Mr Pearce is appointed to the boards of RHUK, RPML and LTMF.

6.1.4 *Andrew Stoker*

Andrew Stoker is the Chief Financial Officer of the Group and was appointed to this position in 2014. Mr Stoker has responsibility for the finance, risk and actuarial functions of the Group. Mr Stoker was previously a Partner in Ernst & Young's risk and actuarial practice and prior to that was the Chief Actuary of Lucida. Mr Stoker has also held roles at PwC, Tillinghast and Legal & General. Mr Stoker is a Fellow of the Institute of Actuaries and holds a joint honours Bachelor of Science (Mathematics and Management Studies) degree from Nottingham University.

Mr Stoker is appointed to the board of RHUK and is the Chair of the Working Level Risk Committee and the New Activities Committee.

6.1.5 *Richard Berliand*

Richard Berliand is a member of the supervisory board of Deutsche Börse AG and its Eurex subsidiaries. He has also served as Deputy Chairman of Deutsche Börse AG and Chair of its risk committee since May 2015. Mr Berliand is on the board of Mako Europe, certain fund entities in the Renshaw Bay fund group and serves as Chairman of ITRS Global Holdings. Mr Berliand is also a member of the FCA's Regulatory Decisions Committee and an adviser to the Commodity Futures Trading Commission. He was previously with J.P. Morgan for 23 years, most recently as global head of its cash equities and prime services businesses. Mr Berliand holds a Master of Arts (Law) degree from the University of Cambridge.

Mr Berliand is appointed to the boards of RHUK, the Issuer and RAL as a non-executive director.

6.1.6 *Glenn Earle*

Glenn Earle is currently a non-executive director of Fiat S.p.A., a senior adviser at Affiliated Managers Group and a board member and trustee of the Royal National Theatre. In 2011, Mr Earle retired as Chief Operating Officer of Goldman Sachs International where he also co-chaired the firm's capital committee. Mr Earle previously served as a non-executive director of the Group from 2007 to 2011. Mr Earle holds a Bachelor of Arts (Economics and Law) degree from the University of Cambridge and a Masters of Business Administration from Harvard Business School.

Mr Earle is appointed to the boards of RHUK, the Issuer and RAL as a non-executive director.

6.1.7 *Naguib Kheraj*

Naguib Kheraj is a senior adviser to the Aga Khan Development Network and serves on the boards of various entities within this network. Mr Kheraj is also a non-executive director of Standard Chartered and a member of the investment committee of Wellcome

Trust. Mr Kheraj began his career at Salomon Brothers and went on to hold a number of senior positions at leading financial institutions. He served as Group Finance Director, Vice-Chairman and in various other leadership positions at Barclays and was the Chief Executive Officer of J.P. Morgan Cazenove. Mr Kheraj holds a Master of Arts (Economics) degree from the University of Cambridge.

Mr Kheraj is appointed to the boards of RHUK, the Issuer and RAL as a non-executive director.

6.1.8 *Raymond King*

Raymond King is currently a non-executive director of Saga and the Chair of its audit committee. Mr King is also the Chairman of the audit committee at Infinis Energy. He is also a non-executive director of the Financial Reporting Counsel and chairman of its audit and assurance council and codes and standards committee. Previously, Mr King was the Chief Executive Officer and the Group Finance Director of BUPA and a reporting panel member of the CMA. Earlier in his career, Mr King held senior management roles at Parity Group, Diageo, Southern Water and Imperial Chemical Industries. He was also a non-executive director of Friends Provident Group from 2004 to 2009 and Chair of its audit committee. Mr King qualified as a chartered accountant with PwC and holds a Bachelor of Science (Chemistry) degree from Queen's University. He is a Fellow chartered accountant and a member of the Association of Corporate Treasurers.

Mr King is appointed to the boards of RHUK, the Issuer and RAL as a non-executive director. He also serves as Chair of the Audit Committee.

6.1.9 *Charles Pickup*

Charles Pickup was previously a Partner in the risk consulting and software division of Towers Watson (formerly Tillinghast) and acted as the Actuarial Function Holder at Lucida, Countrywide and Blackrock. Prior to this time, Mr Pickup worked at Commercial Union and Prudential Bache Securities, specialising in UK life insurance. Mr Pickup holds a Bachelor of Arts (Physics) degree from Oxford University, a PhD (Theoretical Physics) from King's College London and is a Fellow of the Institute of Actuaries.

Mr Pickup is appointed to the boards of RHUK, the Issuer and RAL as a non-executive director.

6.1.10 *Douglas Paterson*

Douglas Paterson was previously a Senior Partner in the audit division at PwC and has considerable experience in financial services markets, including insurance. Mr Paterson is also a non-executive director of Goldman Sachs International Bank and was formerly a non-executive director of Close Brothers Group. Mr Paterson holds a Master of Arts (Modern Languages) from the University of St Andrews and is a member of the Institute of Chartered Accountants in England and Wales.

Mr Paterson is appointed to the boards of RHUK, the Issuer and RAL as a non-executive director.

6.1.11 *Michael Sherwood*

Michael Sherwood is a Vice-Chairman of Goldman Sachs and co-chief executive officer of Goldman Sachs International. Mr Sherwood is a member of Goldman Sachs' management committee, Chairman of its partnership committee and Co-Chairman of its management committee. He joined Goldman Sachs in 1986 and became a Partner in 1994.

Mr Sherwood is appointed to the board of RHUK by the Goldman Sachs Shareholder as a shareholder director.

6.1.12 *Dermot McDonogh*

Dermot McDonogh is a managing director within the finance division of Goldman Sachs International, the firm's international controller and a member of its European audit committee. Mr McDonogh joined Goldman Sachs International in 1994.

Mr McDonogh is appointed to the boards of RHUK, the Issuer and RAL by the Goldman Sachs Shareholder as a shareholder director. He also serves as Chair of the Board Risk Committee.

6.1.13 *Chad Pike*

Chad Pike is a Vice Chairman and senior managing director in the tactical opportunities group at Blackstone Europe. Mr Pike is currently a member of Blackstone Europe's tactical opportunities investment committee, its real estate investment committee and its executive committee. Since joining Blackstone Europe in 1995, Mr Pike has led a number of transformational initiatives at the firm.

Mr Pike is appointed to the board of RHUK by the Blackstone Shareholders as a shareholder director.

6.1.14 *Qasim Abbas*

Qasim Abbas is a managing director of The Blackstone Group. Since joining The Blackstone Group in 2012, Mr Abbas has primarily focused on financial institutions across Europe. Prior to joining The Blackstone Group, Mr Abbas was a portfolio manager with Trafalgar Asset Managers where he was responsible for real estate and mortgage debt instruments.

Mr Abbas is appointed to the boards of RHUK, the Issuer and RAL by the Blackstone Shareholders as a shareholder director.

6.1.15 *Robin Jarratt*

Robin Jarratt is a Senior Vice-President of GIC and head of its European direct investment group. Mr Jarratt is responsible for all of GIC's direct private equity and mezzanine debt investments in Europe, the Middle East and Africa.

Mr Jarratt is appointed to the boards of RHUK, the Issuer and RAL by the GIC Shareholder as a shareholder director.

6.1.16 *Vinit Nagarajan*

Vinit Nagarajan is a Vice President in GIC's Private Equity and Infrastructure Group. He has been with GIC for over four years and has undertaken transactions in the financial services, consumer, natural resources and infrastructure sectors. Mr Nagarajan is a director of RAC, a roadside assistance company, and an observer on the board of Avolon, an aircraft leasing company. Prior to joining GIC, Mr Nagarajan worked in investment banking at Deutsche Bank. Mr Nagarajan holds a Bachelors degree in electrical engineering and a Masters degree in finance.

Mr Nagarajan is appointed to the board of RHUK by the GIC Shareholder as a shareholder director.

6.1.17 *Timothy Corbett*

Timothy Corbett is the Executive Vice-President and Chief Investment Officer of MassMutual. Mr Corbett is responsible for MassMutual's overall investment strategy and has oversight of its investment account. Prior to joining MassMutual in May 2011,

Mr Corbett was the Chief Investment Officer and head of pension fund management of the State of Connecticut Treasurer's Office.

Mr Corbett is appointed to the board of RHUK by the MassMutual Shareholder as a shareholder director.

6.2 *Committees of the Group and it subsidiaries*

6.2.1 *Audit Committee*

The audit committee is a sub-committee of the board of RHUK (the "**Audit Committee**"). The role of the Audit Committee is to assist the boards of the Group and its subsidiaries, in fulfilling their oversight responsibilities for the financial reporting processes, the systems of internal control, the effectiveness of audit activities, as well as the Group's processes for monitoring compliance with laws, regulations and business principles. This role encompasses responsibilities such as the appointment and management of the external auditors and the Group and its subsidiaries' annual audit, the overview of the internal audit function, oversight for systems of governance and compliance, and the review of financial statements and related accounting policies and judgements. The Audit Committee, together with the Board Risk Committee, has delegated its authority in relation to the implementation of the Solvency II regulations to the Solvency II Steering Committee.

The Audit Committee has a non-executive director as its Chair. The Audit Committee reports to the board of RHUK.

6.2.2 *Board Risk Committee*

The board risk committee is a sub-committee of the board of RHUK (the "**Board Risk Committee**"), providing it with guidance on the risk management of the Group. The role of the Board Risk Committee is to provide leadership, direction and oversight of the Group's risk appetite, level of risk tolerance, risk strategy and risk management framework as well as to advise on the risk aspects of major investments and corporate transactions. This role includes responsibilities such as the ongoing monitoring and control of all financial and insurance risks associated with the activities of the Group within the parameters set by the board of RHUK and to ensure that the interests of all of the members of the Group are properly protected through the application of effective risk and capital management frameworks. The Board Risk Committee has delegated authority in relation to certain matters to the Working Level Risk Committee discussed below. The Board Risk Committee, together with the Audit Committee, has also delegated its authority in relation to the implementation of the Solvency II regulations to the Solvency II Steering Committee.

The Board Risk Committee has a shareholder director as its Chair. The Board Risk Committee reports to the board of RHUK.

6.2.3 *Working Level Risk Committee*

The working level risk committee is a sub-committee of the Board Risk Committee (the "**Working Level Risk Committee**"). The Working Level Risk Committee is responsible for the day-to-day monitoring and control of financial risks, insurance risks and operational risks, as well as for recommending investment strategies or larger insurance transactions for consideration by the Board Risk Committee and, ultimately, the board of RHUK. The Working Level Risk Committee is also responsible for monitoring the Group and its subsidiaries' compliance with its risk policy and recommends to the Board Risk Committee the limits of the Group and its subsidiaries' financial and insurance risks. The Working Level Risk Committee has delegated its authority in relation to the Issuer's economic capital model to the Economic Capital Model Working Group and in relation to non-conforming transactions to the Booking Policy Working Group.

The Chair of the Working Level Risk Committee is the Chief Financial Officer. The Working Level Risk Committee reports to the Board Risk Committee.

6.2.4 *Solvency II Steering Committee*

The Solvency II steering committee is a sub-committee established by the Audit Committee and the Board Risk Committee (the "**Solvency II Steering Committee**"). The Solvency II Steering Committee's role is to deliver the Group's Solvency II implementation plan. This includes the responsibility for overseeing the Group's compliance with Regulatory Capital Requirements, producing the Group's own risk and solvency assessment and the Group's solvency and financial position report, as well as overseeing the project management aspects of the Group's implementation plan for Solvency II.

The Chair of the Solvency II Steering Committee is the Chairman. The Solvency II Steering Committee reports to the Audit Committee and the Board Risk Committee.

6.2.5 *Economic Capital Model Working Group*

The economic capital model working group is a working group established by the Working Level Risk Committee (the "**Economic Capital Model Working Group**"). The Economic Capital Model Working Group is responsible for determining the methodology and assumptions used in the Group's models for calculating its economic and Regulatory Capital Requirements.

The Chair of the Economic Capital Model Working Group is the Group's Chief Investment Officer. The Economic Capital Model Working Group reports to the Working Level Risk Committee.

6.2.6 *Booking Policy Working Group*

The booking policy working group is a working group established by the Working Level Risk Committee (the "**Booking Policy Working Group**"). The Booking Policy Working Group is responsible for reviewing and tracking transactions that are regarded as non-conforming because they exceed certain limits established by the Group. It is also responsible for dealing with booking issues associated with certain transactions, in accordance with internal policies.

The Chair of the Booking Policy Working Group is the Group's Chief Investment Officer. The Booking Policy Working Group reports to the Working Level Risk Committee.

6.2.7 *New Activities Committee*

The new activities committee is a sub-committee of the board of the Issuer (the "**New Activities Committee**"). The New Activities Committee has responsibility for assisting the management of the Issuer to review the terms of new business to be written by the Issuer or a proposed transaction to be undertaken, including in relation to reinsurance arrangements. The New Activities Committee arranges for pre-approval of such new business and considers possible legal, regulatory, tax and accounting issues associated with the new business or the proposed transaction, as well as reputational risks in relation thereto. The New Activities Committee is also responsible for managing the Group's business standards and practices.

The Chair of the New Activities Committee is the Chief Financial Officer. The New Activities Committee reports to the board of the Issuer.

6.2.8 *TCF Committee*

The “treating customers fairly” committee is a sub-committee of the board of the Issuer and RAL (the “**TCF Committee**”). The role of the TCF Committee is to assist the Group to ensure that it is consistently delivering fair outcomes to consumers and that senior management is taking responsibility for ensuring that the Group and its staff at all levels deliver the consumer outcomes relevant to their business through establishing an appropriate culture. The TCF Committee is also responsible for ensuring that there is a culture within the Group whereby the Group’s staff understand the need to treat customers fairly, as well as for reviewing the Group’s handling of customer fairness issues and ensuring the Group’s adherence to the six “treating customers fairly” outcomes established by the FCA.

The Chairman is the Chair of the TCF Committee. The TCF Committee reports to the board of the Issuer and RAL.

6.2.9 *Separation Committee*

The separation committee is a sub-committee of the boards of the Issuer and RAL (the “**Separation Committee**”). The Separation Committee has responsibility for managing the arrangements relating to the transfer of the Issuer’s systems and platforms currently operated on infrastructure owned by Goldman Sachs to other service providers.

The Chair position for the Separation Committee is shared jointly with a representative of the Goldman Sachs Shareholder. The Separation Committee reports to the Issuer and RAL.

6.2.10 *Nomination Committee*

The nomination committee is a sub-committee of the board of RHUK (the “**Nomination Committee**”). The role of the Nomination Committee is to monitor the balance of skills, knowledge, experience and diversity of the boards of the Group and its subsidiaries, recommend board, board committee and senior management appointments to such boards, and monitor succession plans for the directors of the Group and its subsidiaries, and the development plans of the directors and senior management within the Group and its subsidiaries.

The Chair of the Nomination Committee is the Chairman. The Nomination Committee reports to the board of RHUK.

6.2.11 *Remuneration Committee*

The remuneration committee is a sub-committee of the board of RHUK (the “**Remuneration Committee**”). The role of the Remuneration Committee is to review and make recommendations to the boards of RHUK and the Issuer regarding the remuneration policy of the Group and its subsidiaries, and to review compliance with such policy insofar as it relates to senior management and other employees. The Remuneration Committee also monitors the level and structure of remuneration for employees of the Group and its subsidiaries, and makes recommendations for the remuneration packages of the non-executive directors, executive directors and other senior managers employed by the Group and its subsidiaries.

The Chair of the Remuneration Committee is the Chairman. The Remuneration Committee reports to the board of RHUK.

7 Conflicts of Interest

The directors of the Group and its subsidiaries may, from time to time, hold directorships or other significant interests with companies outside of the Group and/or its subsidiaries which may have

business relationships with the Group and/or its subsidiaries. Directors have a statutory duty to avoid conflicts of interest with the entities within the Group and/or their subsidiaries and, in particular, the Issuer. The articles of association of each of the entities of the Group allow its directors to authorise conflicts of interest. The boards of the entities within the Group and their subsidiaries have adopted policies and effective procedures to manage and, where appropriate, approve conflicts or potential conflicts of interest. Under these procedures, directors are required to declare all directorships of companies which are not part of the Group or are a subsidiary of the Group, along with other appointments which could result in conflicts or could give rise to a potential conflict. The Nomination Committee, or the board of the relevant entity of the Group or its subsidiaries, where appropriate, evaluates and approves each such situation individually.

The following directors have been appointed to the boards of the relevant Group entities as representatives of the Shareholders:

- Michael Sherwood, shareholder director of RHUK (appointed by the Goldman Sachs Shareholder);
- Dermot McDonogh, shareholder director of RHUK, the Issuer and RAL (appointed by the Goldman Sachs Shareholder);
- Chad Pike, shareholder director of RHUK (appointed by the Blackstone Shareholders);
- Qasim Abbas, shareholder director of RHUK, the Issuer and RAL (appointed by the Blackstone Shareholders);
- Robin Jarratt, shareholder director of RHUK, the Issuer and RAL (appointed by the GIC Shareholder);
- Vinit Nagarajan, shareholder director of RHUK (appointed by the GIC Shareholder); and
- Timothy Corbett, shareholder director of RHUK (appointed by the MassMutual Shareholder).

From time to time, circumstances may arise in which the duties of these individuals as directors of the relevant Group entities may conflict with their interests as the representatives of Shareholders.

The following executive directors are also shareholders through their holding of certain classes of non-voting shares in RHUK:

- Antigone Loudiadis, director of RHUK, the Issuer and RAL;
- Thomas Pearce, director of RHUK; and
- Andrew Stoker, director of RHUK.

From time to time, circumstances may arise where the duties of each of these individuals as directors of the relevant Group entities may conflict with their interests as holders of certain classes of non-voting shares in RHUK.

MassMutual holds a number of floating rate perpetual preferred callable securities previously issued by the Issuer. From time to time, circumstances may arise where the duties of Timothy Corbett's position as a director appointed by the MassMutual Shareholder may conflict with the interest he represents for the MassMutual Shareholder as a subsidiary of MassMutual.

Goldman Sachs International provides transitional services to the Group under a transitional services agreement. From time to time, circumstances may arise where the duties of Michael Sherwood and Dermot McDonogh, as directors of Group entities appointed by the Goldman Sachs Shareholder, may conflict with the interests they represent as members of senior management within Goldman Sachs International.

There are no other potential conflicts of interest between the duties of each of the directors to the Issuer and his/her private interests or other duties. The Group and its subsidiaries have appropriate procedures in place to identify and manage conflicts of interest should they arise.

REGULATORY OVERVIEW

1 Introduction

The Group and its subsidiaries are subject to extensive laws and regulations, in particular, the UK regulatory framework established under FSMA. Such regulatory framework is enforced by a number of different governmental authorities and non-governmental agencies and other regulators. The Issuer (along with RAL) is authorised by the PRA, and regulated by the PRA (in relation to prudential and organisational requirements) and the FCA (in relation to conduct of business requirements).

As a company carrying on an insurance business in the UK, the Group (and, in particular, the Issuer) is subject to detailed regulatory requirements, including requirements to be authorised to carry on an insurance business and to comply with comprehensive prudential and conduct of business rules. This section provides an overview of the key features of the regulatory regime for companies carrying on insurance business in the UK as it applies to the Group and, in particular, the Issuer.

2 Regulation by the Bank of England, the PRA and the FCA

The framework regulating the UK financial system separates the prudential regulation (carried out by the PRA) and conduct of business regulation (carried out by the FCA). The Bank of England is responsible for ensuring and protecting the stability of the UK financial system and supervising financial market infrastructures.

The PRA, a subsidiary of the Bank of England, is responsible for the safety and soundness of the financial services sector through the micro-prudential regulation of insurers, banks, building societies, credit unions and major investment firms. The PRA started with two primary statutory objectives introduced by the amendments to FSMA under the Financial Services Act 2012 (the "**FS Act**"), as follows:

- a general objective to promote the safety and soundness of the firms it regulates, focusing on the adverse effects that they can have on the stability of the UK financial system; and
- an objective specific to insurance firms, to contribute to ensuring that policyholders are appropriately protected.

In 2014, the PRA introduced an additional objective to promote effective competition in the markets for services provided by PRA-authorised firms. This further objective is complementary to, rather than the equivalent of, the FCA's primary competitive objective. It also has a specific "insurance objective" of contributing to the securing of an appropriate degree of protection for those who are, or may become, policyholders of PRA-authorised insurers.

The FCA is the independent conduct of business regulator and, in broad terms, is responsible for, among other things, regulating standards of conduct in the retail and wholesale markets. The FCA has the strategic objective of ensuring that the retail and wholesale markets function effectively, as well as operational objectives focused on market integrity, consumer protection and effective competition. The FCA regulates the conduct of every authorised insurer. Its "operational objectives" are to protect and enhance confidence in the UK financial system by protecting consumers, enhancing the integrity of financial markets and promoting effective competition in the interests of consumers. The FCA also has a "strategic objective" of ensuring that relevant markets function well.

The Bank of England has specific responsibilities in relation to financial stability, including:

- ensuring the financial stability of the monetary system;
- the oversight of financial system infrastructure, in particular, payments systems in the UK and abroad; and
- maintaining a broad overview of the financial system through its monetary stability role.

The Financial Policy Committee ("**FPC**"), a committee of the Bank of England's board of directors, is responsible for monitoring and responding to system risks to the UK financial system. The FPC considers prudential regulation issues across the UK financial system on a macro-level, in contrast to the PRA's micro-prudential role. The FPC may direct the PRA and the FCA to take action to address systemic risks. Its principal objective is to assist the Bank of England in achieving its financial stability objective by identifying, monitoring and taking action to remove or reduce risks to the stability of the UK financial system (that is, systemic risks). The FPC responds to sectoral issues that could threaten economic and financial stability, and has the power to give directions to the PRA and the FCA.

As an authorised insurance company, the Issuer (along with RAL) is required to comply with the provisions of FSMA, as well as the rules made by the PRA and the FCA under FSMA. These rules are set out in the PRA's rulebook ("**PRA Rulebook**") and the FCA's handbook ("**FCA Handbook**"), respectively. They include:

- the Principles for Businesses;
- the SYSC;
- the prudential rules contained in the "General Prudential Sourcebook" ("**GENPRU**");
- the "Prudential Sourcebook for Insurers" ("**INSPRU**");
- the "Interim Prudential Sourcebook for Insurers" ("**IPRU INS**");
- the conduct of business rules contained in the "Conduct of Business Sourcebook" ("**COBS**"); and
- the "Insurance: Conduct of Business Sourcebook" ("**ICOBS**").

The PRA and the FCA have extensive powers to supervise and intervene in the affairs of the insurers that they are responsible for regulating. For example, if the PRA and the FCA can supervise and/or intervene should they consider it appropriate in order to protect policyholders against a risk that an insurer may be unable to meet its liabilities as they fall due, that the threshold conditions (as discussed in more detail below) may cease to be met, that the insurer has failed to comply with obligations under the relevant legislation or rules, that the insurer has furnished them with misleading or inaccurate information or that there has been substantial departure from any proposal or forecast submitted to the relevant regulator.

The PRA Rulebook, the FCA Handbook and secondary legislation made under FSMA are used to implement the requirements contained in a number of EU directives relating to financial services and to insurance businesses in particular.

The PRA and the FCA have continued the more intrusive and direct style of regulation adopted by the FSA following the onset of the recent financial crisis. This strategy, combined with (i) an outcome-focused regulatory approach and (ii) a more proactive approach to enforcement and more punitive approach to penalties for infringements, means that authorised firms continue to face increased supervisory intrusion and scrutiny, resulting in increased internal compliance costs and supervision fees. There continue to be risks and uncertainties as to how the FCA and the PRA will interact with each other over the regulation of the same legal entities, where regulation is divided between the two regulators.

In addition, the FS Act provides for additional specific powers for the PRA and the FCA, including:

- the ability of the FCA to intervene in order to ban financial products from sale or to prevent an insurer from selling a widely accepted product if it determines such firm's sale process to be unacceptable; and

- the ability of the PRA to direct an unregulated UK holding company (for example, RHUK) to take particular action, or refrain from taking a particular action, and to censure or fine such company if it does not so comply.

3 The PRA Rulebook and the FCA Handbook

The FCA Handbook and the PRA Rulebook set out the rules, guidance and other provisions made by the FCA and the PRA, respectively, under powers given to them under FSMA.

The FCA's approach to regulation and the standards it requires insurers to maintain are set out in the FCA Handbook. In addition, the PRA Rulebook sets out the PRA's rules in respect of which insurance companies are expected to comply, which focus on prudential matters.

The PRA Rulebook and the FCA Handbook comprise a number of sourcebooks containing regulatory obligations which are binding on firms or manuals containing provisions relevant to the regulatory relationship which the regulators have with firms, such as in relation to supervision and enforcement, which set out the rules which apply to dual-regulated insurers and provide the core ongoing requirements for PRA-authorised insurers, as discussed in further detail below.

3.1 *The Principles for Businesses*

Insurance companies that are authorised by the PRA are subject to certain overarching principles issued by the PRA (the "**Fundamental Rules**") and the FCA (the "**Principles for Business**"). These principles are intended to ensure fairness and integrity in the provision of financial services in the UK and contain the fundamental obligations of insurers. The Fundamental Rules also focus on the effectiveness of the risk management frameworks of insurance companies that are authorised by the PRA. The emphasis and reliance on these principles by the PRA and the FCA has marked a move to more "judgment-based" regulation in recent years.

3.2 *Prudential standards*

It is a fundamental requirement of the PRA's prudential rules that insurance companies maintain adequate financial resources. This requirement and the obligation for an insurer to carry out a risk-based assessment of its own capital requirements are contained in GENPRU. Provisions relating to the requirement to manage risks in general and details relating to management of particular types of risk are set out in INSPRU and in SYSC.

GENPRU covers the overall requirement to have capital resources in excess of an insurer's capital resources requirement and sets out what constitutes capital resources and how different insurers should calculate their capital requirement. It sets out the main categories of prudential risk against which an insurer's assessment of risk should be made. However, an insurer's own assessment should be appropriate to its size and the nature and complexity of its business. The categories of prudential risk include insurance risk, credit risk, market risk, liquidity risk, operational risk and certain other types of risk (for example, interest rate risk).

The rules in SYSC aim to encourage senior managers and directors to take appropriate practical responsibility for an insurer's affairs. They elaborate on the Principles for Businesses and require an insurer's senior managers to ensure that, among other things:

- the insurer's employees have suitable skills, knowledge and expertise;
- the insurer has in place appropriate risk management systems and controls; and
- the insurer has in place appropriate compliance, record-keeping and audit systems.

The rules in INSPRU apply specifically to insurers and contain further provisions in relation to managing risk and calculating an insurer's cover for insurance liabilities (and capital requirements for the business as a whole), including provisions relating to admissibility of

assets to cover an insurer's technical provisions and limits on counterparty and asset exposures. INSPRU also contains restrictions which limit the activities of the insurer to insurance business and activities directly arising from that business.

IPRU INS sets out certain residual prudential and notification requirements for insurers, and predominantly consists of financial reporting requirements.

3.3 ***The Approved Persons regime***

The FCA and the PRA have powers and responsibilities under FSMA over persons (usually individuals in financial services firms) who carry out "controlled functions", meaning that such persons are able to exercise significant influence over an authorised insurer. Persons who perform controlled functions (for example, executive or non-executive directors and persons responsible for the risk management, internal audit or compliance functions of an insurance company) must be approved by the FCA and/or the PRA, and persons who have been approved for these purposes are referred to as "approved persons" ("**Approved Persons**").

The purpose behind the Approved Persons regime is to ensure the quality of individuals working in key positions in firms. FSMA empowers the FCA and the PRA to approve an individual only if they are satisfied that the individual is "fit and proper" to perform the relevant function. In particular, the PRA and/or the FCA (as the case may be) must be satisfied as to that individual's honesty, integrity, reputation, competence and capability for the role that such individual is to assume in the insurance company, as well as that individual's financial soundness. The fitness and propriety of an individual to perform a controlled function must also be satisfied on a continuing basis, not just when they apply for approval.

Following a consultation process that commenced in November 2014, on 13 August 2015 the FCA and the PRA published final rules for a new senior insurance managers regime ("**SIMR**") that will replace the Approved Persons regime for insurers. In broad terms, the final rules:

- include accountability rules for individuals working in insurance firms that are subject to Solvency II, particularly with respect to governance and the fitness and propriety of relevant individuals working within insurers; and
- incorporate some aspects of the senior managers regime that apply to banks into the regime for insurers.

A core feature of the SIMR is that the controlled functions require regulatory pre-approval. The intention behind this feature is to assist regulators in holding individuals responsible and accountable for the ongoing safety and soundness of the firm, and for providing appropriate protection for policyholders.

The rules regarding fitness and propriety and certain rules regarding the allocation of responsibility will become effective from 1 January 2016. The remaining rules will come into effect from 7 March 2016, with some earlier deadlines for transitioning into the new regime.

Alongside these changes, there are a number of ongoing initiatives, both at UK and EU level, that are likely to result in the FCA and the PRA making significant changes to the regime in the coming years.

3.4 ***The Senior Managers & Certification Regimes***

The Senior Managers & Certification Regimes ("**SMCR**"), which will apply to deposit-takers and PRA-designated investment firms from 7 March 2016, will be extended to apply to all authorised firms, including insurers. The SMCR is contained in the Bank of England and Financial Services Bill 2015/16 (the "**Bill**"), which has had its first reading in the House of Lords.

The SMCR comprises the following elements:

- a senior managers' regime, which applies to individuals performing a senior management function ("**SMF**"). A SMF is a function that requires the person performing it to be responsible for managing one or more aspects of the relevant firm's affairs (so far as such affairs relate to regulated activities) and those aspects involve, or may involve, a risk of serious consequences for the relevant firm, or for business or other interests in the United Kingdom;

- a certification regime, which applies to employees of relevant firms who could pose a risk of significant harm to the firm or to any of its customers (for example, staff who give investment advice or administer benchmarks). Such employees will not be pre-approved by the PRA. Rather, firms will be required to certify that such employees are fit and proper for their roles on an on-going basis; and

- conduct rules, which are high level requirements that apply to persons within the scope of the senior managers' regime and the certification regime. The FCA's Conduct Rules will also apply to most employees of relevant firms based in the United Kingdom or those who deal with customers in the United Kingdom. The conduct rules replace the Statements of Principle and Code of Practice that applies to Approved Persons.

In addition, the SMCR confers the FCA and/or the PRA with the power to make conduct rules that are not limited to senior managers and employees. This will enable the FCA and/or the PRA to apply the conduct rules directly to directors of firms who are not Approved Persons and are considered to be outside the scope of the senior managers' regime.

For insurers within the scope of the SIMR, the SIMR regime will then apply from 7 March 2016. Insurers will be required to comply with the SMCR during 2018.

3.5 *Conduct of business requirements*

Through COBS and ICOBS, the FCA regulates the distribution and sale of insurance products. COBS applies where such insurance products have an investment element, such as pension policies, and ICOBS applies to non-investment insurance products. Accordingly, differing requirements apply to the sale of general and pure protection insurance contracts as compared to long-term insurance contracts that function as savings and investment vehicles.

The scope and range of the obligations imposed on an authorised company under COBS and ICOBS varies according to the scope of the insurer's business and the nature of its clients. Many of the provisions only apply to insurance companies that deal directly with retail customers or to transactions with retail customers or provide packaged products. Such insurance companies are subject to detailed conduct of business obligations relating to product disclosure, assessment of suitability for private customers, the range and scope of the advice which the insurer provides, and fee and remuneration arrangements.

COBS and ICOBS are supplemented by the Principles for Business, including the principle that insurers should provide information to consumers which is clear, fair and not misleading, as well as to treat customers fairly. Such principles are actionable by the FCA. In recent years, conduct of sales of insurance products have come under greater scrutiny, resulting in an increase in the fines levied on insurers by the FCA and compensation orders made against insurers from the Financial Ombudsman Service ("**FOS**") for breaches of conduct of COBS and ICOBS. An example of such action is the extensive regulatory review and subsequent fines levied and compensation orders made in relation to the sales of payment protection insurance products noted above.

In general, COBS and ICOBS govern the sale of new policies. However, they also include rules applicable in the course of administration of in-force policies by the Group relating to:

- information to be provided to existing policyholders;
- cancellation rights;
- the handling of claims;
- reporting to clients;
- the provision of certain protections in relation to clients' assets;
- treating policyholders fairly; and
- pensions transfer and the open market option.
- These may apply regardless of whether or not an insurer is actively selling its products.

COBS and ICOBS implement the Insurance Mediation Directive ("**IMD**") in the UK, which is currently under review by EU legislative bodies, further details of which are provided in section 10 below.

3.6 *Treating customers fairly*

There is a clear focus in the UK on the fair treatment of customers, in particular, on the manner in which insurance companies sell and administer insurance policies and other products. Principle 6 of the FCA's Principles for Business requires a firm to pay due regard to the interests of its customers and to treat them fairly. The emphasis of this initiative is to achieve fair outcomes for customers.

The FCA has wide-ranging powers to take enforcement action against insurers and individuals (for example, against senior management if it considers that they have failed in relation to their responsibilities) for breach of the TCF principle, including where it finds that an insurance company's systems and controls or actions cause actual or potential consumer detriment.

4 Enforcement and Supervision

4.1 *Enforcement*

The PRA and the FCA have powers to take a range of investigative, disciplinary or enforcement actions, including the ability to sanction companies and individuals carrying out controlled functions within them. Most notably, enforcement action may include restrictions on undertaking new business, public censure, restitution, fines and, ultimately, revocation of permission to carry on regulated activities or of an approved person's status. The PRA and the FCA also have the power to undertake a range of investigative actions. In addition, the PRA (and, where relevant, the FCA) can grant, vary, revoke or cancel the permissions or authorisations of an authorised insurance company that has not engaged in regulated activities for 12 months or that fails to meet the threshold conditions. They may also impose product intervention rules and require the maintenance of adequate financial resources.

In addition to the above, the FCA has the power to impose sanctions on an authorised person who is found to have committed market abuse and it has the power to institute criminal proceedings for offences under:

- FSMA or any statutory instruments made under it (with the exception of certain provisions for which the PRA is the Relevant Regulator);
- the insider dealing provisions of the Criminal Justice Act 1993; and

- certain provisions contained in anti-money laundering and counter-terrorist financing legislation.
- The PRA and the FCA may also make enquiries of the insurance companies that they regulate regarding compliance with applicable regulations.

4.2 ***Supervision***

The PRA has wide powers to supervise, and intervene in, the affairs of an insurance company under FSMA. It can, for instance, require insurance companies to provide particular information or documents to it, require the production of a report by a "skilled person" appointed by the PRA or formally investigate an insurer.

The nature and extent of the PRA's supervisory relationship with an insurer depends on how much of a risk the PRA considers it could pose to its statutory objectives. The PRA assigns insurers to one of five "impact categories", based on its overall assessment of an insurer's systemic importance, its proximity to failure, the context in which the insurer operates and a bespoke selection of activities which PRA supervisors deploy as they judge necessary.

The FCA's supervisory approach is built around three pillars, which can broadly be described as follows:

- **Pillar 1**: involves "proactive firm supervision" (also referred to as the "firm systematic framework") which is designed to be a forward-looking assessment of an insurer's conduct risk;
- **Pillar 2**: involves the FCA's event-driven work where it reacts to what is actually happening at the insurer; and
- **Pillar 3**: relates to products and issues, where the FCA carries out thematic reviews and market studies across a particular sector or sectors, which are becoming more common.

5 Permission to Carry on Insurance Business in the UK

Pursuant to section 19 of FSMA, it is unlawful to effect or carry out contracts of insurance in the UK, or carry on the business of an insurer, without permission to do so from the PRA under Part 4A of FSMA (a "**Part 4A Permission**"). The FCA must also consent to the granting of the permission.

In order to grant a Part 4A Permission, the PRA (with input from the FCA, where appropriate) must determine that the applicant meets the requirements of FSMA, including certain "threshold conditions". The threshold conditions are the minimum conditions which must be satisfied, both at the time of authorisation and on an ongoing basis, in order for an insurer to gain and continue to have permission to carry on the relevant regulated activities under FSMA. Dual-regulated insurers must meet both the PRA's and the FCA's threshold conditions. These relate to matters, including the applicant's legal form, whether the applicant has adequate resources (both financial and non-financial) to carry on its business and whether, having regard to all the circumstances (including whether the applicant's affairs are conducted soundly and prudently), the applicant is fit and proper to conduct the relevant regulated activities.

The Part 4A Permission contains a description of the activities that an authorised insurer is permitted to carry on. When granting a Part 4A Permission, the PRA may impose such limitations and requirements as it considers appropriate.

Once authorised, in addition to continuing to meet the threshold conditions, insurers must comply with the Principles for Businesses, as well as other rules in the PRA Rulebook and the FCA Handbook, as discussed above.

6 Change of Control of Insurance Companies

Under section 178 of FSMA, any person who intends to acquire or increase its "control" over a UK authorised insurance company must notify the PRA of its decision and receive approval from the PRA before becoming a "controller" or increasing its interest in such insurance company to or above certain thresholds.

The PRA must, within 60 working days of the date on which it receives a notification (provided it has received all the necessary information), either approve, or notify the applicant that it does not approve, the relevant acquisition of or increase in control. In reaching its decision, the PRA is required to consult with the FCA and the FCA may require the PRA to reject the application or impose conditions on the approval of the application in certain circumstances.

The PRA must also be notified when the transaction which results in the change of control takes place. No prior approval for reducing control below one of the thresholds referred to below is required, although notification must still be given to the PRA of the relevant transaction.

A "controller" is any natural or legal person or such persons "acting in concert" who has or have taken a decision to acquire or increase, directly or indirectly, a holding above a certain level in, broadly, a UK authorised insurance company. Broadly, "control" over a UK authorised insurer will occur if the acquirer:

- holds 10 per cent. or more of the shares or voting rights in that company or in its parent undertaking; or
- is able to exercise significant influence over the management of an insurer by virtue of the acquirer's shares or voting power in the company or its parent undertaking.

Increases in control of an insurance company require the prior consent of the PRA where they reach thresholds of 20 per cent., 30 per cent. and 50 per cent. of the shares or voting power in the insurer or its parent undertaking.

Breach of the requirements to notify the PRA of a decision to acquire or increase control or to obtain approval before effecting the transaction in question is a criminal offence attracting potentially unlimited fines, and other offences exist for breaches of the provisions of the change of control regime described above.

7 Regulatory Capital

The current rules in force in the UK require insurance companies to maintain capital resources equal to, or in excess of, their applicable capital required ("**CRR**"). Detailed rules define how to calculate the CRR and what constitutes capital for these purposes.

Under the rules in GENPRU, for an insurer only carrying on a long-term insurance business (and which has no with-profits liabilities), the CRR is equal to the minimum capital requirement ("**MCR**"). The MCR for an insurer such as the Issuer is the higher of:

- the base CRR for long-term insurance business applicable to that insurer; and
- the sum of the long-term insurance capital requirement and the resilience capital requirement.

The base CRR is a Euro denominated amount specified at an EU level which differs for various classes of insurer. The long-term insurance capital requirement is the amount of capital resources that an insurer must hold, calculated by reference to the capital at risk in respect of specified insurance business risks. The resilience capital requirement is an additional UK requirement which requires capital to be set aside against the potential effects of market risk.

Insurance companies are also required to file an annual return with the PRA comprising audited accounts and other prescribed documents within certain timeframes. These returns are required to be

prepared in accordance with the valuation rules in INSPRU and GENPRU and the reporting rules in IPRU INS.

Assets and investments count towards capital adequacy requirements only if they are admissible assets capable of being valued in accordance with the rules in GENPRU. Inadmissible assets are deducted from capital resource calculations. Assets are also required to be deducted from capital resources to the extent that they exceed certain requirements in INSPRU as to counterparty and asset exposure limits. These limits are intended to prevent insurance companies from incurring a significant exposure to any one counterparty (including a group of companies) or one asset type.

Rules in the PRA Rulebook and INSPRU also require an insurance company to calculate its capital requirements through its own risk assessment (that is, the insurer's individual capital assessment). If the PRA disagrees with an insurer's individual capital assessment, it may draw up its own individual capital guidance ("**ICG**") for the insurer, which it will provide on a confidential basis. Ultimately, the PRA may, subject to satisfying certain conditions, impose ICG as a requirement on the scope of the insurer's permissions, resulting in that ICG becoming mandatory for the insurer. The results of this assessment are not published.

EU Member States are required to provide group supervision for any insurance company which is part of a group comprising at least one other insurance company (including where one of these companies is a non-member country insurance undertaking). This requirement is derived from the EU Insurance Groups Directive. The PRA implements this requirement by imposing a group capital resources requirement on a consolidated basis.

8 The Solvency II Directive

8.1 *Overview*

The EU has for a number of years been developing proposals for the revision of the EU solvency framework applicable to insurers. The intention of the reform is to codify and harmonise prudential regulation for insurers, and apply more consistent risk-sensitive standards to insurers' capital requirements. Such reform will affect solvency requirements and other matters, such as the financial strength of insurers and reinsurers domiciled in EU Member States.

As noted above, the new Solvency II framework (as set out in the Solvency II Directive) was formally approved by the Economic and Financial Affairs Council in November 2009. EU Member States were required to implement Solvency II by 31 March 2015 and insurance companies are required to comply with the new regime from the implementation date, being 1 January 2016.

Solvency II will replace the current EU regulatory framework for the prudential supervision of insurance and reinsurance companies and will update, among other things, the EU Insurance Directives. It is intended that Solvency II will apply more consistent risk-sensitive standards to capital requirements, bringing European insurance regulations closely in line with banking and securities regulation with a view to avoiding regulatory arbitrage, aligning regulatory capital with economic capital and enhancing public disclosure and transparency.

The main aim of the Solvency II framework is to protect policyholders through establishing prudential requirements better matched to the true risks of the business, taking into account other regulatory objectives of ensuring the financial stability of the insurance industry and stability of the markets. As noted above, Solvency II adopts a three-pillar approach to prudential regulation, which can broadly be described as follows:

- **Pillar 1**: quantitative requirements covering the amount of capital an insurer should hold;
- **Pillar 2**: qualitative requirements in relation to undertakings such as risk management and supervisory activities; and

- **Pillar 3**: enhanced public and supervisory reporting, disclosure and transparency requirements.

More specifically, Solvency II will contain rules covering, among other things:

- technical provisions against insurance and reinsurance liabilities;
- the valuation of assets and liabilities;
- the MCR and a higher and more risk-sensitive Solvency Capital Requirement;
- what capital (that is, own funds) will be eligible to cover technical provisions, the MCR and the Solvency Capital Requirement, and to what extent specific tiers of capital may so count;
- what capital or assets are to be treated as being restricted to specific uses and not therefore fungible or transferable across the firm's entire operations;
- to what extent an insurer's capital models may be used to calculate the Solvency Capital Requirement;
- governance requirements, including risk management processes;
- requirements covering (i) matters to be reported privately to the firm's supervisor leading to a full supervisory review process, and (ii) matters to be published in a "solvency and financial condition report" ("**SFCR**");
- rules providing for the Solvency Capital Requirement to be supplemented by a "capital add-on" in appropriate cases, the add-on to be imposed by the PRA;
- rules on insurance products which are linked to the value of specific property or indices;
- the application of the above requirements across insurance groups, including a specific regime for insurance groups with centralised risk management and an enhanced role for the "group supervisor" of international groups, who will be required to work in conjunction with a "college of supervisors" responsible for specific solo members of the group; and
- provision for the supervision of insurance groups headed by an insurance company or insurance holding company with a head office outside the EEA.

A key aspect of Solvency II is the focus on a supervisory review at the level of the individual legal entity. Accordingly, the assessment of risks and capital requirements under Solvency II are intended to be aligned more closely with economic capital methodologies and will include the option for insurance companies to improve their risk management process by being permitted to calculate their own solvency requirements by the Standard Formula or by using an internal economic capital model to calculate their Solvency Capital Requirement. However, insurers will require the approval of the PRA to use an internal economic capital model. The process of obtaining such approval is a rigorous one involving a full review of the insurer's governance arrangements and the PRA being satisfied that the internal economic capital modelling is fully used within the insurer's business. The PRA has operated a "pre-application" process, under which the PRA undertakes a review of an insurer's internal model so that any shortfalls may be identified and rectified ahead of a formal application for approval under the Solvency II framework. The Governor of the Bank of England reinforced in a September 2014 speech that the PRA would not hesitate to refuse approval for opaque or inadequate models, noting that poorly designed models would not be acceptable. In such a situation, an insurer may be required to adopt a partial internal economic capital model or use the Standard Formula. In

either case, the PRA may impose capital add-ons if it considers that the resultant capital requirement does not reflect the risk exposure of the insurer.

The PRA has also noted its intention to impose certain minimum capital requirements for UK insurance companies using such internal economic capital models through the use of "early warning indicators" ("**EWI**"). EWIs would act as a check to ensure that, once insurance companies' models were approved, such models would continue to meet the Solvency II calibration requirement. In addition, Solvency II will require insurers to develop and embed an effective risk management system as a fundamental part of running the insurer.

The new regime will also require insurers to disclose a considerably greater level of qualitative and quantitative information as compared to the current rules, both to their own supervisor through "regular supervisory reporting" and to the market through the publication of the SFCR. This is intended to increase transparency, allowing easier comparison across the industry and enabling supervisors to identify sooner if insurers are heading for financial difficulty. In turn, increased transparency is intended to drive market discipline, arising from the reaction of rating agencies and the capital markets to insurers' performance.

In addition to these new capital requirements and procedures, the Solvency II regime will require that insurers make significant changes to their business operations, including the organisation of internal processes, the roles and responsibilities among certain key officers and external reporting obligations, as well as to the presentation of financial information.

8.2 ***The Omnibus II Directive***

As noted above, the Solvency II Directive was amended by the Omnibus II Directive, which was proposed in January 2011. The European Parliament and the Council of the European Union reached agreement on the Omnibus II Directive in November 2013. The agreed text of the Omnibus II Directive was formally adopted by the European Parliament in March 2014 and the Council of the European Union in April 2014. In broad terms, Omnibus II introduces a number of changes to Solvency II, designed to reflect the revised EU financial services supervisory framework (in particular, the replacement of the Committee of European Insurance and Occupational Pensions Supervisors with the European Insurance and Occupational Pensions Authority from 1 January 2011) and aligns Solvency II with the legislative process introduced by the EU's Lisbon Treaty.

In particular, the Omnibus II Directive defines the scope of EIOPA's powers in the context of the Solvency II regime, including its powers to resolve disagreements between national supervisors and to act as a co-ordinator in "emergency situations". The Omnibus II Directive also clarifies the areas in which EIOPA may issue binding technical standards and sets out an expanded role for EIOPA in monitoring compliance by EU Member States. The effective application of certain key measures incorporated into the Omnibus II Directive, such as provisions for third-country equivalence, are expected to be subject to supervision and approval.

8.3 ***Development of the Solvency II "level" standards***

As noted above, the Solvency II framework is in the process of being finalised and some of its more detailed requirements are yet to be fully confirmed.

For example, the Solvency II Directive will be implemented by means of both "level 2" measures, including delegated acts and binding technical standards, and "level 3" guidance, including non-binding supervisory standards, recommendations and guidelines. "Level 2" rules, which take the form of a delegated regulation and supplement the Solvency II Directive in more detail, were adopted by the European Commission on 10 October 2014 and entered into force on 18 January 2015. Several consultation papers have been published by the FCA and the PRA in relation to the transposition of the Solvency II Directive into UK law. On 20 March 2015, the PRA published a policy statement containing a set of final rules to

implement the Solvency II Directive. The Solvency II regulations were also laid before the UK Parliament on 9 March 2015, making corresponding amendments to primary legislation. The proposed UK rules generally replicate the "level 2" rules other than in certain instances, such as the need to provide for with-profit funds in the context of long-term insurance funds no longer being recognised under Solvency II. EIOPA continues to finalise its implementing measures. The first implementing standards were adopted in March 2015, with the second implementing standards expected to be adopted before the end of 2015. Various "level 3" guidelines have also been published. EIOPA has published a timeline indicating that it intends to consult on and finalise the implementing technical standards and guidelines required under Solvency II throughout 2015. National supervisors will be required to comply with the guidelines or explain why they do not do so.

8.4 ***Capital Markets Action Plan and Capital Markets Union***

The European Commission presented its Capital Markets Union Action Plan on 30 September 2015, together with a first set of initiatives to build a Capital Markets Union (the "**CMU**"). The European Commission has proposed that amendments are made to the Solvency II Delegated Regulation (the "**Delegated Regulation**") in order to provide insurance companies with incentives to invest for the long-term in infrastructure and European Long-Term Investment Funds, in particular by reducing the amount of capital that they must hold in respect of such investments. As part of the broader CMU initiative, the European Commission is proposing reforms which will affect the securitisation markets via a new securitisation regulation, which will change the prudential treatment of securitisation for banks. This is likely to result in further changes to the Delegated Regulation once the new securitisation regulation has been adopted in order to bring the prudential treatment of securitisation for insurers in line with the change to the prudential treatment of securitisation for banks.

8.5 ***The Group's preparedness for the implementation of Solvency II***

As noted above, management considers that it understands the implications that Solvency II has for its business, and preparations for the introduction of Solvency II on 1 January 2016 are well advanced. During the remainder of 2015, the Group expects to complete its preparations for the implementation of Solvency II. One of the most significant aspects of such preparation related to the Group's application to the PRA for approval of the use of a partial internal economic capital model for the purposes of calculating some of the components of the Group's Solvency Capital Requirement.

The Group continues to work with the PRA, the FCA, HM Revenue & Customs ("**HMRC**"), the Association of British Insurers, trade associations and peers across the EU to ensure that the practical details of Solvency II (including final implementation measures) are workable, effective and implemented by the Group within appropriate deadlines. The Group will continue to monitor developments in relation to Solvency II prior to its implementation on 1 January 2016 and thereafter.

9 MiFID II

The original Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**") and its predecessor legislation, the Investment Services Directive, set out detailed and specific requirements in relation to organisational and conduct of business matters for investment firms and regulated markets. In particular, the Markets in Financial Instruments Directive and its implementing measures make specific provision in relation to, among other things, organisational requirements, outsourcing, customer classification, conflicts of interest, best execution, client order handling and suitability and appropriateness, and investment research and financial analysis, pre- and post-trade transparency obligations, transaction reporting and substantial changes to the responsibility for the supervision of cross-border investment services. Although the Markets in Financial Instruments Directive does not apply to insurance businesses, it has driven changes to the conduct of business rules, including those that apply to insurance businesses.

In October 2011, the European Commission published proposed amendments to the Markets in Financial Instruments Directive. The recast Markets in Financial Instruments Directive ("**MiFID II**") (repealing the Markets in Financial Instruments Directive) and the new regulation adopted in early 2014 represent a significant overhaul of the new EU regulatory regime for financial services. The new legislation came into force on 2 July 2014 but will not apply until 3 January 2017. Many of its changes will impact the insurance industry, both directly and indirectly.

As with the current Markets in Financial Instruments Directive, insurance undertakings are expressly exempt from the new directive, though some non-insurance activities may fall within its scope as the language of the exemption has been amended so that it will now apply to "insurance undertakings or undertakings carrying out the reinsurance and retrocession activities referred to" in the Solvency II Directive "when carrying out the activities referred to in that Directive".

MiFID II also amends the IMD to apply customer protection requirements to insurance-based investment products, such as with-profits life insurance contracts. As a result, insurance intermediaries and insurance undertakings that carry out insurance distribution activities will be subject to new obligations regarding conflicts of interest, general investor protection principles and the provision of certain information to customers.

10 Insurance Distribution Directive

The IMD established an EU regime for intermediaries involved in the promotion, sale and administration of certain insurance products. In 2007 (two years after the transposition deadline), it became apparent that there was possibly a need to amend the IMD. As a result, the Second Insurance Mediation Directive ("**IMD2**") was published by the European Commission on 9 July 2012. IMD2, now known as the Insurance Distribution Directive ("**IDD**"), is designed to improve the regulation of the retail insurance market and the proposed directive aims to ensure a level playing field between all participants involved in the sale of insurance products, and to strengthen policyholder protection. One of the key objectives of the IDD is to improve consumer protection in the insurance sector through co-ordinating national rules regarding the access to the activity of insurance and reinsurance distribution and improving the regulation of retail insurance sales and distribution practices across the European market. Since the original proposal was put forward in 2012, six compromise proposals were prepared with a view to reaching an agreement by the Council of the European Union's on the approach to be adopted.

A key focus of the IDD is on the regulation of distribution products. The key elements of the IDD include:

- extending the scope to cover all sales of insurance products, whether by insurance intermediaries or insurance undertakings, including proportionate requirements for those who sell insurance products on an ancillary basis;
- identifying, managing and mitigating conflicts of interest;
- strengthening administrative sanctions, as well as measures to be applied in the event of a breach of key provisions;
- enhancing the suitability and objectiveness of insurance advice;
- mandatory disclosure at the pre-contractual stage by insurance intermediaries of the nature and basis (but not amount) of remuneration received;
- ensuring that sellers' professional qualifications match the complexity of the products that they sell; and
- clarifying the procedure for cross-border market entry.

The IDD will continue to be a minimum harmonisation directive, enabling EU Member States to impose higher standards if they wish. On 22 July 2015, the Committee of the Permanent

Representatives (*Comité des représentants permanents*) approved, on the Council of the European Union's behalf, the final IDD compromise text as set out in Council Note 10747/15. The IDD will be submitted to the European Parliament for a vote at first reading and to the Council of the European Union for final adoption. The precise time as to when the IDD will be adopted by the European Parliament and the Council of the European Union is currently unclear. Member States will have two years to implement the IDD. As adoption of the IDD is expected to take place during the second half of 2015, implementation of the IDD is likely to take place during the second half of 2017.

11 The Insurance Act 2015

The Insurance Bill 2014 received Royal Assent on 12 February 2015 to become the Insurance Act 2015 (the "**Insurance Act**") and the majority of its provisions will enter into force on 12 August 2016. The Insurance Act is designed to update the statutory framework in line with best practice in the market in which the Group operates.

The Insurance Act applies mainly to non-consumer contracts of insurance (although certain provisions apply to both consumer and non-consumer policies) and includes the following key provisions:

- the duty of "fair presentation", which has modified the duty of utmost good faith that underlies insurance contracts. This requires policyholders to (i) disclose to insurers "every material circumstance" which the insured knows or ought to know, or (ii) provide the insurer with "sufficient information" to put a prudent insurer on notice that it needs to make further enquiries into those material circumstances;
- the introduction of proportionate remedies for non-disclosure;
- any warranty breach by an insured now suspends (rather than entirely discharges) the insurer's liability until such breach is remedied. The insurer remains liable for the periods prior to such breach and the policy will resume in full force once the breach has been remedied;
- clarification and codification of insurers' civil remedies in respect of fraudulent claims; and
- the removal of the remedy of avoidance of an insurance contract for breach of the duty of utmost good faith, both at common law and under statute and for both consumer and non-consumer contracts.

The Enterprise Bill 2015 (the "**Enterprise Bill**"), which was given its first reading in the House of Lords on 16 September 2015, contains a proposal for new provisions to be inserted into the Insurance Act 2015 relating to a term to be implied into every insurance contract which requires the insurer to pay sums due to policyholders within a "reasonable time".

The provisions under the Enterprise Bill provide some guidance on what is meant by "reasonable time", stating that it "includes a reasonable time to investigate and assess the claim". What is regarded as "reasonable" is dependent on the circumstances by reference to a non-exhaustive list of factors such as the type of insurance, the size and complexity of the claim, the insurer's compliance with any relevant statutory or regulatory rules or guidance, and factors outside the insurer's control. A clearer understanding of what is meant by the phrase may emerge through case law if policyholders bring claims against insurers for what policyholders perceive to be an undue delay in the payment of their claims. The usual contractual remedies, including damages, would be available for breach of the implied term.

In addition, the provisions under the Enterprise Bill include a defence for insurers against a claim for breach of the implied term where an insurer had reasonable grounds for disputing the validity or quantum of a claim. The provisions also make clear that an insurer's failure to pay a claim whilst a dispute is continuing does not mean that it has breached the implied term if the insurer can demonstrate that there were reasonable grounds for disputing such claim. The effect of this wording would appear to shift the burden of proof to the insurer to prove that it had reasonable grounds for disputing a claim.

The Enterprise Bill does not allow for contracting out of the implied term in consumer contracts. Contracting out in non-consumer contracts would be possible, save for any deliberate or reckless breach of the implied term and provided that the insurer complies with the transparency requirements of the Insurance Act 2015.

12 Whistleblowing

In October 2015, the PRA and FCA published policy statements containing new rules in relation to whistleblowing by employees with respect to the conduct of their employers or others within their firm.

The new rules go further than the requirements of the Public Interest Disclosure Act 1998 ("**PIDA**"), which is the legislation that protects employees who act as whistleblowers in relation to the conduct of their employer or others within their firm. The new rules are designed to encourage individuals with concerns about a firm's practices to raise them, and to ensure that such concerns are properly managed and reported to the regulator where appropriate.

The new rules apply to:

- insurance and reinsurance firms within the scope of Solvency II and the Society of Lloyd's and managing agents;
- PRA-designated investment firms; and
- UK deposit takers with assets of £250 million or more (including banks, building societies and credit unions).

Under the new rules, such firms must:

- appoint a senior manager in accordance with the requirements of the SIMR or SMCR (as applicable) who is a non-executive director to act as a "whistleblowers' champion". The whistleblowers' champion is responsible for oversight of the firm's whistleblowing policies and procedures, and for ensuring an annual report on whistleblowing is presented to the board and made available to the regulator;
- put internal arrangements in place to handle any type of disclosure by any person (including anonymous disclosures) as opposed to only those disclosures that currently fall within the scope of the PIDA;
- put in place systems which protect confidentiality, allow for the escalation of concerns to the appropriate regulator or law enforcement agency, track the outcome of whistleblowing reports, provide feedback to whistleblowers and have measures in place to protect whistleblowers from victimisation;
- inform the FCA and the PRA if it there is an unsuccessful judgment against the firm in an employment tribunal claim for whistleblowing and there are findings relating to a claim that the whistleblower was victimised;
- ensure that employees based in the United Kingdom are informed about the whistleblowing services offered by the PRA and the FCA and they can approach these regulators directly without first raising concerns with their employer; and
- ensure their appointed representatives and tied agents inform their own staff about the FCA and the PRA's whistleblowing arrangements.

Notably, the new rules do not go so far as to impose a general regulatory duty on employees to whistleblow in relation to the conduct of their employer or others within their firm.

Firms that are subject to the new rules will have until 7 March 2016 to appoint and assign responsibilities to a whistleblowers' champion, who must ensure that the firm is compliant with the new regime by 7 September 2016.

13 Money Laundering and Financial Crime

The FCA has a duty to consider the importance of minimising the risk of the insurance companies that it regulates being used for financial crime. It therefore looks at measures an insurer takes to monitor, detect and prevent financial crime. This includes measures in respect of money laundering, terrorist financing, data security, bribery and corruption, fraud and sanctions breaches.

14 Consumer Complaints and Compensation

The Financial Services Compensation Scheme ("**FSCS**"), established under FSMA, seeks to protect policyholders where a UK authorised insurer is unable or unlikely to be able to meet its financial obligations to policyholders. The FSCS provides compensation to certain categories of customer who suffer loss as a consequence of the failure by an insurer to meet its liabilities arising from claims made in connection with regulated activities. The FSCS can pay compensation if an insurer is unable, or likely to be unable, to pay claims against it. Participating insurers and other financial services firms are responsible for contributing to compensation schemes in respect of insurers and other financial services firms that are unable to meet their obligations to policyholders. In this respect, the FSCS is funded by way of levies imposed on all of its participating insurers, including the Issuer.

Insurance companies, along with other insurers and certain other unregulated businesses, fall within the jurisdiction of the FOS, which is a body established under FSMA. The FOS is a free and independent service for individuals and small business customers designed to resolve disputes where the customer is not satisfied with the response received from an authorised insurer. Authorised insurers are required to have adequate complaints-handling procedures in place but, where these are exhausted and a complaint or dispute has not been resolved, the FOS provides for dispute resolution in respect of certain categories of customer complaints brought by individuals and small business customers. This service covers most financial products and services in (or from) the UK. Insurers that are covered by the FOS are required to pay levies and case fees, which provide the funding for the FOS. Although the FOS takes account of relevant regulation and legislation, its guiding principle is to resolve matters on the basis of what is fair and reasonable. In this regard, the FOS is not bound by the law of its own precedent; however, the decisions made by the FOS are binding on regulated insurers.

In addition, where larger groups or matters of public policy are concerned, the PRA and/or the FCA may intervene directly to provide redress to consumers.

15 Data Protection

In the UK, the collection and use of personal data is primarily governed by the DPA, which regulates in the UK, among other things, the manner in which living individuals' personal data is obtained, retained, maintained and used. Personal data includes all information relating to an individual by which he or she can be identified, and does not need to be private (and so would include, for example, a name or an address). The DPA covers both hard copy and electronic data, and sets out a series of rules and requirements which must be adhered to by any party deemed to be controlling or processing such personal data. The Freedom of Information Act 2000 (the "**FOIA**") sets out a scheme under which any person can obtain information held by, or on behalf of, a "public authority" without needing to justify the request. A public authority does not need to disclose information if certain exemptions set out in the FOIA apply.

The Group is required to comply with the DPA, and any breach could give rise to criminal or civil liability and other enforcement action by the Information Commissioner's Office, which is the body responsible for the implementation and enforcement of the DPA.

16 Competition Regulation

The CMA is the UK's competition authority. Its regulatory and enforcement powers could impact the insurance sector in a number of ways, including powers to investigate and impose remedies on any feature, or combination of features, of a market in the UK. In addition, since 1 April 2015, the FCA has also had competition powers under the Enterprise Act 2002 and the Competition Act 1998 relating to the financial services sector, which it holds concurrently with the CMA.

17 European Regulatory Environment

The regulatory framework applicable to insurers in the UK is derived to a certain extent from EU directives. These directives are implemented into national legislation within each EU Member State. The UK has implemented all such directives. EU Member States may not pass implementing legislation that fails to meet the minimum standards, but may impose legal requirements that go beyond the minimum standards, unless the directive is a "maximum harmonisation" directive. These directives are regularly reviewed at EU level and could be subject to change. The Group monitors the progress of these initiatives and assesses the likely impact on its business.

Of particular relevance to the Group's (and, in particular, the Issuer's) insurance business are the EU life and non-life insurance directives (the "**EU Insurance Directives**"), which establish a framework for the regulation of insurers in the EEA. The EU Insurance Directives provide that an authorisation to carry on insurance business granted by the relevant insurance regulator (a "**Home State Regulator**") in an EEA Member State where the insurer is incorporated or has its head office is valid for the entire EEA (the "**Passporting Right**"). The Home State Regulator determines the procedures for, and terms of, exercising the Passporting Right depending upon, among other things, whether the insurer intends to establish a branch in another EEA Member State or provide cross-border insurance services in another EEA Member State (a "**Host State**").

Generally, the EU Insurance Directives provide that prudential regulation of an insurance company is a matter for the Home State Regulator, whereas conduct of business regulation and marketing requirements will be subject to the jurisdiction of the regulator in the Host State.

The new European supervisory framework for the financial system involves a two-tier pan-European regulatory structure, comprising the European Systemic Risk Board ("**ESRB**") and three European Supervisory Authorities ("**ESAs**"), namely the European Banking Authority, EIOPA and the European Securities and Markets Authority.

The ESRB monitors and assesses macro-level risks to the European financial system as a whole and is intended to have the power to issue recommendations and warnings to EU Member States (including the national competent authorities) and to the ESAs. The ESRB is also charged with collecting and exchanging relevant information from and between the new ESAs and EU Member States (including national competent authorities) and with the identification and prioritisation of systemic risks.

The ESAs have powers to set technical standards that are binding across Europe and in certain circumstances to mediate between, or to intervene in the practice of, individual national regulatory authorities.

TAXATION

United Kingdom Taxation

The comments below, which are of a general nature and are based on the Issuer's understanding of current UK law and HMRC published practice which may not be binding on HMRC, describe only the UK withholding tax treatment of payments in respect of the Notes and certain information reporting requirements. They are not exhaustive. They assume that there will be no substitution of the Issuer or further issues of securities that will form a single series with the Notes, and do not address the consequences of any such substitution or further issue (notwithstanding that such substitution or further issue may be permitted by the terms and conditions of the Notes). They relate only to the position of persons who hold the Notes as investments and are the absolute beneficial owners thereof. They do not deal with any other UK taxation implications of acquiring, holding or disposing of Notes. Certain classes of persons such as dealers, certain professional investors, or persons associated or connected with the Issuer may be subject to special rules and this summary does not apply to such Noteholders. Prospective holders of Notes who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the UK are strongly advised to consult their own professional advisers.

References in this section to "interest" shall mean amounts that are treated as interest for the purposes of UK taxation.

The Notes will constitute "quoted Eurobonds" within the meaning of section 987 of the Income Tax Act 2007, provided they are and continue to be listed on a Recognised Stock Exchange, within the meaning of section 1005 of the Income Tax Act 2007. The Irish Stock Exchange is a Recognised Stock Exchange for these purposes. Securities will be treated as listed on the Irish Stock Exchange if they are included in the Official List and are admitted to trading on the Main Securities Market. While the Notes are and continue to be quoted Eurobonds, payments of interest by the Issuer on the Notes may be made without withholding or deduction for or on account of UK income tax.

Interest on the Notes may also be paid without withholding or deduction for or on account of UK income tax where, at the time the payment is made, the Issuer reasonably believes that the beneficial owner of the interest is within the charge to UK corporation tax as regards the payment of interest or that the recipient falls within a list of specified entities and bodies, provided HMRC has not given a direction that the interest should be paid under deduction of tax.

In other cases, absent any other relief or exemption (such as a direction by HMRC that interest may be paid without withholding or deduction for or on account of tax to a specified Noteholder following an application by that Noteholder under an applicable double tax treaty), an amount must generally be withheld on account of income tax at the basic rate (currently 20 per cent.) from payments of interest on the Notes that have a UK source.

Information in relation to securities and accounts may be required to be provided to HMRC in certain circumstances. This may include the name and address of the recipient or the beneficial owner of the payments under the Notes, details of the holders or beneficial owners of the Notes (or persons for whom the Notes are held), the value of the Notes, amounts paid or credited with respect to the Notes, details of the persons who exercise control over entities that are, or are treated as, holders of the Notes, details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with transactions relating to the Notes. Information may be required to be provided by (among others) the Issuer, the holders of the Notes, persons who effect or are a party to a transaction in the Notes on behalf of others, registrars and administrators of such transactions, persons who receive or are entitled to receive payments derived from the Notes and persons by or through whom payments derived from the Notes are made. Any information so reported or obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of other jurisdictions.

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue or transfer of the Notes.

EU Directive on the Taxation of Savings Income

The Savings Directive requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or secured by such a person for the benefit of) an individual resident, or to (or secured for) certain other types of entity established, in that other EU Member State, except that Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period it elects otherwise. Luxembourg, which before 1 January 2015 also operated a withholding tax under the transitional rules, has now replaced such withholding tax with the information reporting regime described above. The ending of such transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries.

A number of non-EU countries and territories have adopted similar measures.

The Council of the European Union has adopted the Amending Savings Directive which would, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above, including by expanding the range of payments covered by the Savings Directive, in particular, to include additional types of income payable on securities, and by expanding the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or secured for) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Savings Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

The Council of the European Union has also adopted a Directive (the "**Amending Co-operation Directive**") amending Council Directive 2011/16/EU on administrative co-operation in the field of taxation so as to introduce an extended automatic exchange of information regime in accordance with the global standard released by the OECD Council in July 2014. The Amending Co-operation Directive requires EU Member States to adopt national legislation necessary to comply with it by 31 December 2015, which legislation must apply from 1 January 2016 (1 January 2017 in the case of Austria). The Amending Co-operation Directive is generally broader in scope than the Savings Directive, although it does not impose withholding taxes, and provides that, to the extent there is overlap of scope, the Amending Co-operation Directive prevails. The European Commission has therefore published a proposal for a Council Directive repealing the Savings Directive from 1 January 2016 (1 January 2017 in the case of Austria) (in each case, subject to transitional arrangements). The proposal also provides that, if it is adopted, EU Member States will not be required to implement the Amending Savings Directive. Information reporting and exchange will, however, still be required under Council Directive 2011/16/EU (as amended).

Investors who are in any doubt as to their position or would like to know more should consult their professional advisers.

The Proposed Financial Transaction Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a

broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued in May 2014 and January 2015 by ten of the eleven participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the Commission's Proposal remains subject to negotiation between the participating Member States and the scope of the tax is uncertain. Additional EU Member States may decide to participate.

Prospective Noteholders are advised to seek their own professional advice in relation to the FTT.

FATCA Withholding

Certain provisions of U.S. law, commonly known as FATCA, impose reporting requirements and a withholding tax of 30 per cent. on, among other things, certain payments by non-U.S. financial institutions ("**foreign passthru payments**") made to persons that fail to meet certain certification or reporting requirements. A number of jurisdictions (including the UK) have entered into, or have agreed in substance to, intergovernmental agreements with the U.S. to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions.

Withholding under FATCA is expected to begin on 1 January 2017 (at the earliest) in respect of "foreign passthru payments". FATCA withholding in respect of foreign passthru payments is not required for "obligations" that are not treated as equity for U.S. federal income tax purposes unless such obligations are issued or materially modified more than six months after the date on which the final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register.

In order to avoid becoming subject to withholding tax under FATCA, non-U.S. financial institutions must submit to certain reporting requirements (generally pursuant to an agreement with the U.S. Internal Revenue Service or under local law implementing an IGA ("**IGA Legislation**")) or otherwise be exempt from the requirements of FATCA. Specifically, non-U.S. financial institutions that are not exempt from the requirements of FATCA may be required to identify and report to the government of the U.S. or another relevant jurisdiction certain information regarding "financial accounts" held by U.S. persons or entities with substantial U.S. ownership, as well as accounts of other financial institutions that are not themselves participating in (or otherwise exempt from) the FATCA reporting regime.

In addition, a financial institution may be required to withhold 30 per cent. from all, or a portion of, certain payments made to persons that fail to provide the financial institution with the information, consents and forms or other documentation that may be necessary for such financial institution to determine whether such person is compliant with FATCA or otherwise exempt from FATCA withholding. Non-U.S. financial institutions in a jurisdiction that has entered into an IGA are generally not expected to be required to withhold under FATCA or an IGA (or any IGA Legislation) from payments that they make on securities such as the Notes. However, the full impact of IGAs and IGA Legislation on reporting and withholding responsibilities under FATCA is unclear at this time and no assurance can be given that withholding under FATCA, IGAs or IGA Legislation will not become relevant with respect to payments made on or with respect to the Notes in the future.

Even in the event that FATCA withholding were relevant with respect to payments on the Notes, while the Notes are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any Paying Agent and the Common Depositary, given that each of the entities in the payment chain between the Issuer and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA-compliant holder could be subject to withholding. However, definitive Notes will be printed only in remote circumstances.

FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE ISSUER, THE NOTES AND THE HOLDERS IS SUBJECT TO CHANGE. EACH HOLDER OF NOTES SHOULD CONSULT SUCH HOLDER'S OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW FATCA MIGHT AFFECT EACH HOLDER IN SUCH HOLDER'S PARTICULAR CIRCUMSTANCES.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement dated 28 October 2015 (the "**Subscription Agreement**"), Goldman Sachs International, Barclays Bank PLC, HSBC Bank plc and Lloyds Bank plc (together, the "**Joint Lead Managers**") have agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes at the issue price of 100.00 per cent. of their principal amount less certain commissions. The Joint Lead Managers are entitled to terminate and to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment to the Issuer.

The offering of the Notes is being made on the basis that the Issuer has undertaken to re-register as a public company as soon as reasonably practicable following the publication of its audited financial statements for the year ended 31 December 2015 and, in any event, by 30 March 2016.

United States

The Notes have not been and will not be registered under the Securities Act, and may not be offered or sold within the U.S. or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each of the Joint Lead Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes (i) as part of their distribution at any time, or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the U.S. or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are being offered and sold outside of the U.S. to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the U.S. by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that: (i) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of FSMA do not apply to the Issuer; and (ii) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the UK.

General

No action has been or will be taken by the Issuer or the Joint Lead Managers that would permit a public offering of the Notes, or possession or distribution of this document or other offering material relating to the Notes, in any jurisdiction where, or in any circumstances in which, action for these purposes is required. This document does not constitute an offer and may not be used for the purposes of any offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised.

Persons into whose hands this Prospectus comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver the Notes or have in their possession or distribute such offering material, in all cases at their own expense.

Neither the Issuer nor the Joint Lead Managers represent that the Notes may at any time lawfully be sold in or from any jurisdiction in compliance with any applicable registration requirements or pursuant to an exemption available thereunder or assume any responsibility for facilitating such sales.

The Joint Lead Managers and their affiliates may have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and other members of the Group (including, in some cases, credit agreements, credit lines and other financing arrangements) in the ordinary course of their banking business. The Joint Lead Managers and their affiliates may have positions, deal or make markets in the Notes, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk or other trading activities.

The Joint Lead Managers and their affiliates may provide banking services, including financing, to the Issuer, and for which they may be paid fees and expenses. In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and/or its affiliates (including the Notes). The Joint Lead Managers may have a lending relationship with the Issuer and its affiliates and may routinely hedge its credit exposure to the Issuer and/or its affiliates consistent with their customary risk management policies. Typically, the Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the securities of the Issuer or the relevant affiliate, including potentially the Notes. Any such positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments (including, without limitation, the Notes).

In addition to the services described above which the Joint Lead Managers may provide to the Issuer or other members of the Group from time to time, Goldman Sachs International also currently provides transitional services (including the provision of certain systems and process support) to the Group for the purposes of assisting the Group through its ongoing separation process from the Goldman Sachs Group. As highlighted throughout this Prospectus, the Group was established in 2007 as a wholly owned subsidiary of The Goldman Sachs Group, Inc. ("**Goldman Sachs**") which subsequently divested 64 per cent. of its shares to other funds in December 2013. Further, the Group has been undertaking a project to separate the Group's systems and process support from those of Goldman Sachs International and the completion of this separation is expected for the end of 2017. Further details of the relationship between the Group and Goldman Sachs can be found in the Risk Factor entitled "*The Group relies on various third-party service providers to which it outsources key functions and services. Any loss of, or any negative financial consequences arising in connection with, the provision of these functions or services could have a material impact on the Group's business*", the section entitled "*Description of the Issuer and the Group – Overview of the Group*", the section entitled "*Description of the Issuer and the Group – History and ownership of the Group*" and the section entitled "*Description of the Issuer and the Group – Conflicts of Interest*".

USE OF PROCEEDS

The net proceeds from the issue will be used by the Issuer to refinance an existing loan facility and for general corporate purposes.

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 131295359 and an ISIN code of XS1312953596.

2. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

3. The yield of the Notes is 8.00 per cent., on an annual basis. The yield is calculated as at the Issue Date on the basis of the issue price and the interest rate of 8.00 per cent. per annum. It is not an indication of future yield.

4. The Issuer estimates that the amount of expenses related to the admission to trading of the Notes will be £5,000.

5. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to be admitted to trading on its regulated market.

6. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes. The issue of the Notes was authorised by a resolution of the board of Directors passed on 9 September 2015.

7. The Trust Deed provides that the Trustee may rely on certificates or reports from any auditors or other parties in accordance with the provisions of the Trust Deed, whether or not any such certificate or report or engagement letter or other document in connection therewith contains any limit on the liability of such auditors or such other party.

8. There has been no significant change in the financial or trading position of the RLL Consolidated Group since 30 June 2015 (the date of the RLL Consolidated Group's financial statements for the half year ended 30 June 2015) nor has there been any material adverse change in the prospects of the RLL Consolidated Group since 31 December 2014 (the date of the RLL Consolidated Group's financial statements for the year ended 31 December 2014).

9. There are no, nor have there been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had during the period of 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the RLL Consolidated Group.

10. This Prospectus will also be available on the Central Bank of Ireland's website at www.centralbank.ie.

11. Copies of the annual report and audited financial statements of the Issuer for the year ended 31 December 2013 and the RLL Consolidated Group (prepared on a consolidated basis) for the year ended 31 December 2014, and the half-year ended 30 June 2015, and copies of this Prospectus, the Trust Deed and the Agency Agreement and the constitutional documents of the Issuer will be available for inspection at the specified offices of each of the Issuer during normal business hours, so long as any of the Notes is outstanding.

12. The financial statements of the RLL Consolidated Group for the half-year ended 30 June 2015 contained in this Prospectus do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. As at the date of this Prospectus, no statutory accounts of the RLL Consolidated Group for the half-year ended 30 June 2015 have been delivered to the Registrar of Companies in the UK. The financial statements of the RLL Consolidated Group for the half-year ended 30 June 2015 were not audited as at the date of this Prospectus. For each of the 2013 and 2014 financial years the financial statements of the Issuer and RLL Consolidated Group (as applicable) were audited by PwC and such financial statements received unqualified audit opinions and did not contain a statement made under Section 498(2) or Section 498(3) of the Companies Act. The statutory

accounts for each of the 2013 and 2014 financial years have been delivered to the Registrar of Companies in the UK.

13. PwC, Registered Auditors with the Institute of Chartered Accountants in England and Wales, have audited, and rendered an unqualified audit report on, in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and International Financial Reporting Standards as adopted by the European Union, the financial statements of the Issuer for the year ended 31 December 2013 and the RLL Consolidated Group (as applicable) for the year ended 31 December 2014. PwC has no material interest in the Issuer.

14. There are no material contracts entered into other than in the ordinary course of the Issuer's business which could result in the Issuer being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes.

15. The Issuer was incorporated as Hackremco (No. 2460) Limited on 26 February 2007. It was renamed as First Premium Company Limited on 14 March 2007 and Rothesay Life Limited on 14 May 2007.

16. The Issuer does not intend to provide any post-issuance information in relation to the Notes.

17. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List or to trading on the Main Securities Market for the purposes of the Prospectus Directive.

FINANCIAL STATEMENTS AND AUDITORS' REPORTS

Contents

	Page
Audited consolidated financial statements of the RLL Consolidated Group for the year ended December 2014	F-2
Audited financial statements of the Issuer for the year ended December 2013	F-144
Unaudited consolidated financial statements of the RLL Consolidated Group for the six-month period ended 30 June 2015	F-190

Company Number: 06127279

ROTHESAY LIFE LIMITED

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2014

Strategic Report

The Directors present their Annual Report and the Consolidated Financial Statements for Rothesay Life Limited ('RLL') registered number 06127279, which together with its subsidiary Rothesay Assurance Limited ('RAL') makes up the RL Group. The Consolidated Financial Statements are presented for the year ended 31st December 2014. Comparative information has been presented for the year ended 31st December 2013.

1. Principal Activities

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

2. Review of the Business

Corporate Organisation

RLL operates as an independent standalone business with 78 full time professionals as at 31 December 2014. RLL is the main insurance operating company within the Rothesay Holdco UK Limited group. All the employees are employed by a related group undertaking, Rothesay Pensions Management Limited ('RPML').

The Company was set up in 2007. In December 2013, a group reorganisation was completed which resulted in the Company becoming a wholly-owned subsidiary of a newly-formed holding company domiciled in the UK, Rothesay Holdco UK Limited ('RHUK').

The shareholdings of each ultimate shareholder in RHUK as at 31st December 2014 are outlined below:

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

In May, the RL Group completed the acquisition of MetLife Assurance Limited ('MAL'), a subsidiary of MetLife, Inc. following regulatory approval. MetLife Assurance Limited was a well-regarded specialist bulk annuity provider with £3.1bn in assets under management, £2.7bn of liabilities and responsible for the pensions of 19,540 members across 100+ pensions schemes. In June 2014, MAL was renamed Rothesay Assurance Limited.

Background

The RL Group is authorised to write long term insurance business covering the specific risks associated with its underlying clients' pension obligations, and seeks to generate stable shareholder returns whilst providing certainty and security of pension payments to policyholders.

The primary risks transferred to the RL Group include interest rate risk, inflation rate risk, investment risk and longevity risk. Given the long term nature of the business, mis-management of these risks could result in both greater risk-based capital requirements and increased capital volatility. Which in turn, creates uncertainty for both the level of protection afforded to policyholders as well as the long term returns realised by shareholders.

The RL Group believes that both policyholder and shareholder interests are aligned being managed under a significantly de-risked investment and risk management policy.

Strategic Report (continued)

2. Review of the Business (continued)

Background (continued)

This is accomplished by:

- entering into longevity reinsurance to create certainty for the future cash flow paid;
- locking in the additional returns available on long term liability matching investments; and
- mitigating credit risk through negotiating enhanced structural security, seniority and protection therefore minimising potential losses in the event of default.

Residual risks and capital position are then monitored daily so that the RL Group can dynamically manage its financial position in changing market conditions.

By reducing the risks inherent in the in-force portfolio, the RL Group is able to focus key resources and a stable surplus capital base towards insuring more pensions and pursuing new growth opportunities. This is accretive to shareholder returns and helps the business achieve greater operational economies of scale. The stability of the capital base backing the RL Group's in-force business also enhances the long term protection of policyholders.

Business Summary

The RL Group made a pre-tax profit in the year ended 31st December 2014 of £260.0m (2013: £184.4m). During 2014, the RL Group generated gross written premiums of £1,679.3m (2013: £1,628.1m).

The Consolidated Statement of Financial Position is set out on page 15. The RL Group has reported total assets of £21,874.8m (2013: £11,702.4m). The increase of £10,172.4m was primarily driven by the acquisition of RAL, decreasing interest rates and new business premiums received throughout the year.

The RL Group now has over 176,000 underlying insured lives (2013: 117,990). RLL made payments of £700.6m to policyholders during the year (2013: £576.2m).

Business Environment

The Board and management believe that the market will continue to mature and the volumes of bulk annuity transactions completed each year will continue to rise as the benefits of risk-transfer, for pension schemes and annuity providers acquiring protection increases. Record volumes of transactions were executed during 2014 and market observers now expect annual volumes to exceed £10bn in terms of new business volume.

Strategy

RLL continues to see substantial opportunities for profitable growth in the UK bulk annuity sector, which is underpinned by key structural elements such as an ageing population and increasing desire on the part of corporate pension schemes to reduce and eliminate risks associated with their legacy defined benefit pension liabilities. All new business in the RL Group is expected to be written in RLL.

Strategic Report (continued)

2. Review of the Business (continued)

Strategy (continued)

The RL Group has a clear and well-defined strategy to grow by taking maximum advantage of the substantial opportunity in the sector, but to do so in a manner that does not compromise returns or lead to taking on unnecessary risks. The management of the RL Group believe that close adherence to the strategy will lead to sustainable growth and financial returns. Effective execution of our strategy requires a universal risk culture founded on discipline and responsibility. The prevalence of this culture across the firm and its impact on the quality of the balance sheet and new business origination is the strongest feature of our business model and strategy.

Develop the business through sustainable organic and inorganic growth

RLL will seek to pursue new transactions that meet our target return objectives by structuring secure and innovative solutions for our customers. The objective over the next two to three years is to grow the business to a scale such that the RL Group would be able to underwrite sustainable levels of new business whilst providing a return to investors through dividends.

RLL will aim to ensure it provides a very high level of security to its policyholders by sourcing profitable new business, managing assets to provide attractive risk and capital-adjusted returns and deploying a comprehensive risk and capital management framework to protect against market strains.

Service excellence

RLL has been distinguished by its quality of client service, with trustees, corporate sponsors and policyholders. RLL continues to uphold a high standard of relationship management, operational support and administration.

RLL has been resourced through hiring some of the best talent in the industry and the RL Group will continue to complement the internal management team with best-of-breed advisers and service providers.

Risk Management

As we have grown our business, our approach to risk management has allowed us to recycle capital which has ensured we maintain a very strong balance sheet and substantial capital surplus. This robust position enables us to protect the RL Group against impending regulatory changes through Solvency II as well as provide the firepower to continue to pursue both organic and strategic opportunities to grow. However, our strategy will be to remain patient and focus on value and risk.

The RL Group adopts a robust approach to hedging and investment which necessarily involves:

- A daily mark-to-market valuation approach (to the extent visible trading prices allow) for all assets and liabilities. For positions where direct market data is not available, models are utilised to interpolate or extrapolate to their fair value. Such models and their output are reviewed independently by the independent Risk Management Function.
- A reserving approach for un-hedged risks which aims to ensure that reserves calibrate to the market price of hedging those risks.
- A risk limit framework which ensures the stability of the earnings and solvency position of the business. Limits exist in relation to market, counterparty, demographic and longevity risks and are sized with reference to the overall RLL risk appetite and capital position.

Strategic Report (continued)

2. Review of the Business (continued)

Risk Management (continued)

Asset investment decisions are undertaken with the primary objective of aiming to ensure that the projected returns which can be generated are secure and sustainable for the term of the policyholder reserves. These assets typically seek to minimise potential losses from default through the use of physical or structural security. In some instances, credit hedging instruments are also utilised.

As at year end, the asset portfolio consisted primarily of UK sovereign bonds, tri-party repo facilities, bilateral funding facilities, social housing bonds, covered bonds and UK infrastructure debt.

Wherever possible, a market consistent reserving approach is adopted. Reserves held against un-hedged risks are calibrated to market observed bid/offer charges for hedging instruments. This enables management to dynamically risk hedge the portfolio based on early market indicators, without reducing expected investment returns.

The RL Group seeks to monitor and control exposure through a robust risk and control framework encompassing the management of both in-force business and new business underwriting within a holistic risk control framework:

- Close co-ordination of underwriting, reinsurance, investment and risk hedging functions ensures risk management is central to all aspects of the business, and that new business pricing reflects latest market conditions and hedging costs as well as comprehensive liability analysis.

- The integrated system infrastructure, capturing centrally all assets and liabilities, provides RLL with the capability of daily risk monitoring and reporting at both the portfolio and the individual transaction level.

- An independent risk and capital management function provides continuous monitoring of risk exposures and daily attribution of profit and loss, providing timely information to management and enabling dynamic risk based decision making.

The day-to-day risk management framework is overseen by the Working Level Risk Committee, consisting of relevant senior managers working within a delegated risk management framework. This committee reviews all material new investment, hedging or liability transactions.

The Board has overall responsibility for the management of the exposure to risks, and is supported through formal sub-committees, being the Audit Committee and the Board Risk Committee. The memberships of these committees are composed of Non-Executive and Directors. These Committees ensure that the management of the business is conducted within the delegated risk framework from the main Board.

There are a number of principal risks and uncertainties that could have a material impact on the RL Group's long term performance and could cause actual results to differ from expected or historical results. These are considered in more detail below.

While the RL Group employs a broad and diversified set of risk monitoring and risk mitigation techniques as described previously, those techniques and the judgments that accompany their application cannot anticipate every economic and financial scenario or the specifics and timing of such outcomes. Please refer to the financial risk management section in note 27 to the financial statements for additional detail.

Strategic Report (continued)

2. Review of the Business (continued)

Operational Infrastructure

Failures in internal or outsourced processes could lead to financial loss, disruption of business, liability to clients, regulatory intervention or reputational damage. The RL Group's financial, accounting, data processing or other operating systems and facilities and those of vendors may fail to operate properly or become disabled as a result of events that are wholly or partially beyond the RL Group's control, adversely affecting the RL Group's ability to process transactions. The RL Group seeks to mitigate these risks through policies such as shadow processing of third party administration processes and frequent reconciliation of policyholder records.

Despite the resiliency plans and facilities that are in place, the RL Group's ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports this business and the communities in which the RL Group is located. This may include a disruption involving electrical, communication, transportation or other services facilities used by the RL Group or third parties with which the RL Group conducts business.

Principal Risks and Uncertainties

The RL Group faces a variety of risks that are substantial and inherent in its business including reinvestments, longevity, market, liquidity, counterparty default, operational, legal and regulatory risks. Further detail on each of these risks and how the RL Group manages them are provided in note 27. The following is a summary of some of the more important factors that could affect the performance of the business.

Longevity

A principal risk to which the RL Group is exposed is the longevity risk inherent in whole of life annuities, in particular the risk that actual life expectancy differs from that provisioned. RLL implements rigorous underwriting practices to ensure all longevity risks associated with new liabilities are appropriately evaluated.

RLL also actively manages the risk by executing reinsurance contracts which substantially match the terms of the underlying liabilities, and are collateralised to mitigate RLL's risk of counterparty exposure to the reinsurers in the event of their default.

RLL's discipline in underwriting longevity risk allows it to anticipate pricing levels of reinsurers. Regular communication around pricing levels and execution of reinsurance contracts provides current market-implied levels at which the underlying risk can be reinsured, and ensures RLL keeps up-to-date with the latest developments in the analysis and pricing of longevity risk.

Counterparty credit quality

The RL Group is exposed to the risk that securities or other assets may default on their obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. Deterioration in the credit quality of third parties whose securities or obligations are held by the RL Group could result in losses and/or adversely affect the RL Group's ability to use those securities or obligations for liquidity purposes.

The RL Group's exposure to counterparty credit risk is significantly reduced by entering into agreements that enable the RL Group to obtain collateral from counterparties on an upfront or contingent basis and/or by transferring the credit risk using credit derivatives. Default rates, downgrades and disputes with counterparties as to the valuation of collateral increase significantly in times of market stress and illiquidity. This risk is managed through careful negotiation of contractual rights and prudent default provisions.

Strategic Report (continued)

2. Review of the Business (continued)

Principal Risks and Uncertainties (continued)

Economic and market conditions

The RL Group can be materially affected by conditions in the global financial markets and economic conditions generally. Volatility in interest and inflation rates could materially affect the cost of meeting insurance obligations, but this is significantly reduced through the use of collateralised derivative hedges.

Liquidity

Liquidity is essential to the business. The RL Group's liquidity could be impaired by unforeseen outflows of cash or collateral. This situation may arise due to circumstances that the RL Group may be unable to control, such as general market disruption or an operational problem that affects third parties or the RL Group.

To mitigate liquidity risk the RL Group maintains significant surplus liquidity, comprising investments such as cash, collective investment schemes, government bonds, government guaranteed bonds, supranational bonds and regulated covered bonds. The sum of these liquid assets in aggregate is referred to as the Liquid Asset Buffer. The minimum size of the Liquid Asset Buffer is set equal to the Maximum Liquidity Outflow in extremely adverse stress scenarios. The Liquid Asset Buffer includes cash held by agent banks or in collective investment schemes, government bonds, supranational bonds and covered bonds. Financing haircuts are applied where applicable. The most adverse scenario considered at year end was a 4% increase in GBP swap interest rates of appropriate durations.

Regulatory risk

From 1 January 2016, the current solvency regime will be replaced by Solvency II. Similar to the existing regime, under Solvency II the RL Group is required to hold the greater of the capital required under the new Pillar 1 framework and the capital required under our own economic capital models, Pillar 2. Current projections for Solvency II suggest that the RL Group will hold a capital surplus headroom under its economic capital basis over the Pillar 1 basis consistent with the current capital regime.

Under Solvency II Pillar 2, the RL Group is required to hold sufficient assets to meet:

- The liabilities of the RL Group calculated on a best estimate basis (the "BEL");
- The capital required to meet a 1 in 500 year stress (calculated on the RL Groups economic capital basis)

Matching adjustment

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

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

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

Strategic Report (continued)

2. Review of the Business (continued)

Regulatory risk (continued)

Partial internal model
Under Solvency II, insurers have the option of calculating the SCR either using the prescribed basis (the "standard formula") or applying to use their own internal model. The RL Group is in the process of applying to use its own model for calculating the SCR in relation to spread risk but intends using the standard formula for all other risks (a "partial internal model"). The RL Group is applying to use a partial internal model because the capital requirements under the standard formula for spread risk depend on a somewhat arbitrary classification of structured and collateralised investments and rely on public credit ratings. Little relief is applied under Solvency II to unrated assets with strong security, collateral or other structural protection of the type in which the RL Group has specialised. Such assets are fundamental to the RL Group's business model and hence the RL Group has developed a partial internal model which makes proper allowance for underlying security protection and to ensure future investment decisions are consistent with the RL Group's existing policies.

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

Key Performance Indicators

During the year, the Board frequently monitored the progress of the RL Group by reference to a range of key performance indicators which are deemed to be appropriate and relevant for the RL Group at its current point of development. These include:

	31 December 2014 £000s	31 December 2013 £000s
IFRS profit before tax	259,984	184,396
Economic capital	1,689,000	1,065,000
Economic capital coverage	223%	182%
New business premiums	1,396,526	1,373,326
Financial assets	20,989,390	11,300,849

Financial assets increased from £11,300.8m to £20,989.4m as at 31st December 2014 mainly as a result of the acquisition of RAL, new business and the fall in interest rates.

Economic Capital represents management's internal calculation of the capital resources available to cover risk based capital on a best estimate basis. The RL Group holds capital resources of £1.6bn in excess of best estimate liabilities as at 31 December 2014, a £0.5bn increase since 2013.

Economic Capital Coverage represents management's internal risk based calculation of the capital required to remain solvent for a 99.8% confidence level over a one year period. The RL Group's Economic Capital Coverage as at 31 December 2014 was 223%, an improvement of 41% over the year.

Over time, as the business continues to grow, management will determine whether the current measures need to be supplemented with further key performance indicators.

Future Outlook

The Directors consider that the year end financial position of the RL Group was satisfactory and no significant change in the RL Group's principal business activity is expected. The Directors expect additional growth through potential acquisition opportunities. The RL Group has already established a precedent through the successful integration of the Paternoster business in January 2011 and MetLife Assurance Limited in May 2014. The RL Group will look at further opportunities in the sector.

3. Date of authorisation of issue

The financial statements were authorised for issue by the Board of Directors on 17th August 2015.

ON BEHALF OF THE BOARD

Keith Satchell
Director
17 August 2015

Report of the Directors

The Directors present their Annual Report for the year ended 31st December 2014. The Company Financial Statements approved by the Board of Directors on 25th March 2015 and have been appended to the Consolidated Financial Statements.

1. Results

The RL Group's results for the year are set out in the Consolidated Statement of Comprehensive Income on page 14.

2. Dividends

The Directors recommended no payment of interim dividends during the year ended 31st December 2014 (2013: £281m). The Directors recommended no final ordinary dividend in respect of the year (2013: £nil). Please refer to Note 25 to the Financial Statements for additional detail.

3. Directors

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

Name	Appointed	Resigned
S. Q. Abbas	18 March 2014	
R. Berliand	31 March 2015	
T. J. Breedon	18 March 2014	14 May 2014
R. A. De Beir Jarratt	18 March 2014	
G. Earle	30 March 2015	
R. King	10 November 2014	
N. Kheraj	9 March 2015	
A. Loudiadis		
D. McDonogh		
D. G. Paterson		
C. Pickup		
K. Satchell		

4. Qualifying Third Party Indemnities

The Articles of Association of the Company provide for the Directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office. The Company also provides certain protections for RL Group Directors and senior management against personnel financial exposure that they may have incurred in their capacity as such. These include qualifying third party indemnity provisions (as defined under section 234 of the Companies Act 2006) in force for the benefit of the Directors of the RL Group during the year.

5. Going Concern Statement

The Directors are satisfied that the Company and the RL Group has adequate resources to continue in business and to meet their obligations for the foreseeable future. The Financial Statements have therefore been prepared on a going concern basis.

Report of the Directors (continued)

6. Transition to International Financial Reporting Standards ('IFRS')

The Consolidated Financial Statements of the RL Group have been prepared and approved by the Directors in accordance with IFRS as adopted by the European Union ('EU') and those parts of the Companies Act 2006 applicable to those reporting under IFRS. For all years up to and including the year ended 31st December 2013, the RL Group prepared its Financial Statements in accordance with UK Generally Accepted Accounting Practice ('UK GAAP'). These Financial Statements for the year ended 31st December 2014 are the first the RL Group has prepared in accordance with IFRS. In preparing these Financial Statements the RL Group's opening Statement of Financial Position was prepared as at 1st January 2013, the Company's date of transition to IFRS. See Note 32 for information on how the Company adopted IFRS.

7. Disclosure of Information to Auditors

In the case of each of the persons who are Directors of the Company at the date when this report was approved:

- so far as each of the Directors are aware, there is no information relevant to the audit of which the Company's auditors are unaware; and

- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any information relevant to the audit and to establish that the Company's auditors are aware of that information.

8. Independent Auditors

The Company has passed Elective Resolutions in accordance with the Companies Act 1985 to dispense with the holding of annual general meetings, the laying of Financial Statements before general meetings and the annual reappointment of auditors. PricewaterhouseCoopers LLP will, accordingly, continue in office as auditors of the Company pursuant to Section 487(2) of the Companies Act 2006 and paragraph 44 of Schedule 3 to the Companies Act 2006 (Commencement No. 3 Consequential Amendment, Transitional Provisions and Savings) Order 2007.

9. Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, Report of the Directors and the Financial Statements in accordance with applicable laws and regulations. Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Financial Statements in accordance with IFRSs as adopted by the EU. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the Financial Statements; and

- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Report of the Directors (continued)

9. Statement of Directors' Responsibilities (continued)

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

10. Post Balance Sheet Event

On 17th February 2015 LT Mortgage Financing Limited was incorporated as a wholly owned subsidiary of Rothesay Life Limited with 0.01 pence share capital.

11. Date of Authorisation of Issue

The Financial Statements were authorised for issue by the Board of Directors on 17th August 2015.

ON BEHALF OF THE BOARD

Keith Satchell
Director
17 August 2015

Independent Auditors' report to the members of ROTHESAY LIFE LIMITED

Report on the Group Financial Statements

Our Opinion

In our opinion, Rothesay Life Limited's Group Financial Statements (the 'Financial Statements'):

- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The Financial Statements comprise:

- the Consolidated Statement of Financial Position as at 31 December 2014;
- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on Other Matters Prescribed by the Companies House Act 2006

In our opinion, the information given in the Strategic Report and the Report of the Directors for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Other Matters on which we are required to Report by Exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent Auditors' report to the members of ROTHESAY LIFE LIMITED (continued)

Responsibilities for the Financial Statements and the Audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 10-11, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of Financial Statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the Financial Statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Financial Statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Financial Statements to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matters

We have reported separately on the parent company financial statements of Rothesay Life Limited for the year ended 31 December 2014.

Nick Wilks (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 August 2015

Consolidated Statement of Comprehensive Income

For the year ended 31st December 2014	Note	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Income			
Gross premiums written	2	1,679,335	1,628,059
Premiums ceded to reinsurers		(435,179)	(361,208)
Net Premiums Written		**1,244,156**	**1,266,851**
Investment return	9	1,778,936	(99,975)
Total Revenue		**3,023,092**	**1,166,876**
Expenses			
Claims and change in insurance contract liabilities		(3,228,526)	(1,197,449)
Change in the reinsurers'share of insurance contract liabilities		533,182	261,978
Net Claims Incurred and Change in Insurance Contract Liabilities	3	**(2,695,344)**	**(935,471)**
Operating expenses	4	(61,321)	(39,976)
Finance costs	5	(6,443)	(7,033)
Total Operating Expenses		**(67,764)**	**(47,009)**
Profit Before Tax		**259,984**	**184,396**
Income tax expense	8	(57,085)	(41,217)
Profit for the Year		**202,899**	**143,179**

All income and expenses relate to continuing operations.

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

Notes 1 – 32 form an integral part of these Financial Statements.

Consolidated Statement of Financial Position

As at 31st December 2014	Note	31 December 2014	31 December 2013	As at 1 January 2013
		£000s	£000s	£000s
Assets				
Property, plant and equipment	12	1,524	-	-
Financial investments	13	20,989,390	11,300,849	9,146,260
Reinsurance assets	20	288,654	164,325	240,607
Deferred tax assets	16	-	-	827
Accrued interest and prepayments	17	130,816	77,863	70,383
Receivables	15	357,733	70,383	91,797
Cash and cash equivalents	18	106,711	88,983	54,455
Total Assets		**21,874,828**	**11,702,403**	**9,604,329**
Equity and Liabilities				
Share capital	23	183,901	155,121	135,000
Share premium	24	199,854	112,379	-
Retained earnings	24	504,862	301,963	439,784
Total Equity		**888,617**	**569,463**	**574,784**
Liabilities				
Insurance contract liabilities	19	12,105,682	6,953,306	6,332,064
Payables and financial liabilities	21	8,743,766	4,057,285	2,475,695
Borrowings	22	100,000	100,000	205,000
Deferred tax liabilities	16	3,429	2,914	-
Accruals and deferred income		33,334	19,435	16,786
Total Equity and Liabilities		**21,874,828**	**11,702,403**	**9,604,329**

Please see Note 32 for further details of the IFRS transition and the Consolidated Statement of Financial Position as at 1st January 2014.

Notes 1 – 32 form an integral part of these Financial Statements.

The Financial Statements were approved by the Board of Directors on 17th August 2015 and signed on its behalf by:

Keith Satchell.

Director

Company number 06127279

Consolidated Statement of Changes in Equity

For the year ended 31st December 2014

	Share Capital	Share Premium	Retained Earnings	Total Equity
	£000s	£000s	£000s	£000s
As at 1 January 2014	155,121	112,379	301,963	569,463
Profit for the year	-	-	202,899	202,899
Shares issued	28,780	87,475	-	116,255
As at 31 December 2014	**183,901**	**199,854**	**504,862**	**888,617**

For the year ended 31st December 2013

	Share Capital	Share Premium	Retained Earnings	Total Equity
	£000s	£000s	£000s	£000s
As at 1 January 2013	135,000	-	439,784	574,784
Profit for the year	-	-	143,179	143,179
Dividends paid on ordinary shares	-	-	(281,000)	(281,000)
Shares issued	20,121	112,379	-	132,500
As at 31 December 2013	**155,121**	**112,379**	**301,963**	**569,463**

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Cash Flows from Operating Activities			
Profit for the year		202,899	143,179
Adjustments for Non Cash Movements in Net Profit for the Year			
Interest income		(270,325)	(168,866)
Interest expense		6,442	7,033
Other adjustments		7,988	-
Tax expense		57,085	41,217
Net Increase in Operational Assets			
Financial investments		(6,649,323)	(2,154,589)
Reinsurance asset		(124,329)	76,282
Receivables		(278,983)	21,414
Net Increase in Operational Liabilities			
Insurance contract		2,464,431	621,242
Payables		575,181	266,242
Financial liabilities		4,026,346	1,280,527
Accruals		9,734	1,883
Cash generated in Operations		**27,146**	**135,564**
Interest paid		(4,349)	(6,268)
Interest received		277,747	161,411
Tax paid		(42,733)	(2,679)
Net Cash Inflow from Operating Activities		**257,811**	**288,028**
Cash Flows from Financing Activities			
Repayment of borrowings		-	(105,000)
Proceeds from issue of ordinary share capital (including share premium)		116,255	132,500
Dividends paid		-	(281,000)
Net Cash Inflows/(Outflows) from Financing Activities		**116,255**	**(253,500)**
Cash Flows from Investing Activities			
Net acquisition of plant, equipment and intangibles		(1,524)	-
Acquisitions of subsidiaries		(354,814)	-
Net Cash Flows from Investing Activities		**(356,338)**	-
Net increase in cash and cash equivalents		17,728	34,528
Cash at bank and in hand at 1 January		88,983	54,455
Cash and Cash Equivalents at 31 December	18	**106,711**	**88,983**

Notes to the Financial Statements

Note 1 – Accounting Policies

(a) General Information

RLL is a registered Company incorporated in the United Kingdom. The Company's registered office and principal place of business is Level 25, The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB.

(b) Basis of Preparation

The Consolidated Financial Statements of the RL Group and those of the Company have been prepared and approved by the Directors in accordance with IFRS as adopted by the EU and those parts of the Companies Act 2006 applicable to those reporting under IFRS. The Financial Statements have been prepared on a going concern basis as disclosed within Note 5 of the Report of the Directors.

The Company Financial Statements approved by the Board of Directors on 25th March 2015 and have been appended to the Consolidated Financial Statements.

For all years up to and including the year ended 31st December 2013, the RL Group prepared its Financial Statements in accordance with UK GAAP. These Financial Statements for the year ended 31st December 2014 are the first the RL Group has prepared in accordance with IFRS. Accordingly, the Company has prepared Financial Statements which comply with IFRS applicable for years beginning on or after 1st January 2014 as described in the accounting policies below. In preparing these Financial Statements the RL Group's opening Statement of Financial Position was prepared as at 1st January 2013, the Company's date of transition to IFRS. See Note 33 for information on how the RL Group adopted IFRS.

The consolidated and separate Financial Statements of the Company are presented in sterling (£) rounded to the nearest thousand (£000s) except where otherwise stated.

The RL Group presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement more than twelve months after the year end is presented in the notes.

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

(i) Adoption of New or Amended Standards

The RL Group has adopted the following new standards and changes to existing standards which are relevant to the RL Group's operations, and became effective for financial years beginning on or after 1st January 2014:

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a new definition of 'control' to be applied when determining which entities must be consolidated. This definition is based on the concept of power, exposure or rights to variable returns and their linkage. This differs from the current definition in IAS 27 which is based on the power to determine financial and operating policies. The standard has no material impact on the RL Group's profit before tax for the year or equity. The standard has been endorsed by the EU.

IFRS 11 Joint Arrangements

IFRS 11 defines two types of joint arrangements – joint ventures and joint operations – based on how rights and obligations are shared by parties to the arrangements. The standard sets out the required accounting treatment for each type of joint arrangement. The standard has no material impact on the RL Group's Profit before Tax for the year or equity. The standard has been endorsed by the EU.

Notes to the Financial Statements (continued)

Note 1 – Accounting Policies (continued)

(b) Basis of Preparation (continued)

(i) Adoption of New or Amended Standards (continued)

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 requires additional disclosure for investments in subsidiaries, joint arrangements, associates and structured entities. The standard has had an impact on the level of disclosure in respect of un-consolidated structured entities. The standard has been endorsed by the EU.

IAS 27 Separate Financial Statements

IAS27 removes requirements superseded by IFRS 10. The standard has been endorsed by the EU.

IAS 28 Associates and Joint Ventures

This amendment brings joint ventures into the scope of IAS 28 and to require equity accounting for these entities. The amendment has no material impact on the RL Group's profit before tax for the year or equity. The amendment has been endorsed by the EU.

IAS 32 Financial Instruments – Presentation

This amendment clarifies the requirements for offsetting financial assets and financial liabilities on the Statement of Financial Position. The amendment has no material impact on the RL Group. The amendment has been endorsed by the EU.

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

This amendment reduces the circumstances in which the recoverable amount of assets is required to be disclosed and clarification and amendments to the disclosures required. The amendment has no material impact on the RL Group's Profit before Tax for the year or equity. The amendment has been endorsed by the EU.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

This amendment clarifies the circumstances in which hedge accounting can be continued if derivatives are novated, to facilitate the novation of derivatives to a central counterparty. The amendment has no material impact on the RL Group's Profit before Tax for the year or equity. The amendment has been endorsed by the EU.

(ii) New or Revised Standards Not Yet Effective

The following new or revised standards, in issue, were not yet effective, or in some cases not yet endorsed by the EU. The Company has not early adopted any of these standards.

IFRS 9 Financial Instruments

IFRS 9, as issued in November 2009 and October 2010, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of Financial Assets and Financial Liabilities respectively, as defined in IAS 39. The standard was initially effective for annual years beginning on or after 1st January 2013, but amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1st January 2015.

Notes to the Financial Statements (continued)

Note 1 – Accounting Policies (continued)

(b) Basis of Preparation (continued)

(ii) New or Revised Standards Not Yet Effective (continued)

In November 2013, the IASB issued a new version of IFRS 9 (IFRS 9(2013)), which includes the hedge accounting requirements. IFRS 9 (2013) does not yet have a mandatory effective date, but entities may elect to early apply only the accounting requirements for gains and losses from own credit risk without applying the other requirements of IFRS 9 (2013) at the same time. These provisions require an entity to present in Other Comprehensive Income ('OCI'), the changes in the fair value of non-derivative financial liabilities designated at fair value through profit or loss that are attributable to the RL Group's own credit risk.

Previous versions of IFRS 9 (2009 and 2010) will be available for early application until all of the phases of IFRS 9 have been issued. A mandatory effective date will be set when the IASB completes the impairment phase of the project. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the RL Group's Financial Assets, but will not have an impact on classification and measurements of the RL Group's financial liabilities. The RL Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

(iii) Annual Improvements 2010-2012 Cycle

These improvements are effective from 1st July 2014 and are not expected to have a material impact on the RL Group. They include: IFRS 2 Share based Payments, IFRS 3 Business combinations, IFRS 8 Operating Segments, IAS 16 Property, Plant and Equipment, IAS 38 Intangible Assets and IFRS 24 Related Party Disclosures.

(iv) Annual Improvements 2011-2013 Cycle

These improvements are effective from 1st July 2014 and are not expected to have a material impact on the RL Group. They include: IFRS 3 Business Combinations, IFRS 13 Fair Value Measurement, IAS 40 Investment Property, IFRS 15 Revenue from Contracts with customers, Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisition of Interests, Amendments to IAS 16 and IAS 38: Clarification of Acceptable methods of depreciation and amortisation.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, as issued in May 2014, establishes a new five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue or industry. The principles in IFRS 15 provides a more structured approach to measuring and recognising revenue and will be applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the RL Group satisfies a performance obligation

Notes to the Financial Statements (continued)

Note 1 – Accounting Policies (continued)

(b) Basis of Preparation (continued)

(iv) Annual Improvements 2011-2013 Cycle (continued)

This new revenue standard, which is jointly issued by IASB and the United States Financial Accounting Standards Board (FASB), is applicable to all companies and will supersede the current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual period's beginning on or after 1st January 2017, but early adoption is permitted under IFRS. As the standard was recently issued, the RL Group is still currently assessing the impact.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1st January 2016, with early adoption permitted. This amendment is not expected to have any impact to the RL Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1st January 2016, with early adoption permitted. These amendments are not expected to have any impact to the RL Group given that the RL Group has not used a revenue-based method to depreciate its non-current assets.

(c) Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the RL Group as at 31 December each year.

RLL's subsidiary is fully consolidated from the date of acquisition, being the date on which the RL Group obtains control, and continue to be consolidated until the date when such control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Statement of Comprehensive Income from the date the RL Group gains control until the date the RL Group ceases to control the subsidiary. The Financial Statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions and dividends, are eliminated in full.

Control is achieved when the RL Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the RL Group controls an investee if and only if the RL Group has;

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Notes to the Financial Statements (continued)

Note 1 – Accounting Policies (continued)

(c) Basis of Consolidation (continued)

The RL Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

(d) Contract Classification

The RL Group has classified all its policyholder contracts as insurance contracts in accordance with IFRS 4 Insurance Contracts. Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract.

As permitted by IFRS 4 Insurance Contracts, the assets and liabilities of the RL Group's insurance contracts are accounted for using generally accepted accounting principles within the industry. The RL Group applies the modified statutory solvency basis ('MSSB') of reporting as set out in the revised Statement of Recommended Practise (SORP) issued by the Association of British Insurers (ABI) in November 2005 (amended in December 2006).

i) Premiums

The RL Group writes both single and regular premium business. Single and regular premiums are recognised when they fall due and in accordance with the substance of the underlying contractual agreement.

ii) Claims

Annuity payments are accounted for when they fall due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the long term business provision. Death claims and all other claims are accounted for when notified.

iii) Insurance Contract Liabilities

Insurance contract liabilities are determined by the RL Group's Directors using methods and assumptions recommended by the actuarial function holder of RLL and using recognised actuarial methods with due regard to the actuarial principles laid down in Directive 2002/83/EC. They are calculated using the statutory solvency basis required to comply with the reporting requirements under the Financial Services and Markets Act 2000 and in accordance with the SORP on Accounting for Insurance Business issued by the ABI in December 2005 and revised in December 2006. The RL Group seeks to make prudent assumptions relating to expected future experience based on current market conditions and recent experience. The assumptions used incorporate prudent margins to reflect the inherent uncertainty that actual experience may be less favourable than would otherwise be assumed.

Insurance Contract Liabilities have been determined using the gross premium method of valuation. They are calculated as the discounted value of projected future claim payments (as determined by reference to the contractual arrangements with the insured schemes at an individual member level) adjusted for future administration costs and investment expenses determined using prudent assumptions less the present value of future premiums (a schedule of agreed, guaranteed payments) received under the longevity swap arrangements. Projected future claim payments allow for the effects of mortality. Further details of valuation assumptions are produced in Note 19. The administration costs are reflective of recent costs and expenses budgeted for the future.

Notes to the Financial Statements (continued)

d) Contract Classification (continued)

iii) Insurance Contract Liabilities (continued)

In accordance with PRA valuation regulations set out in the Prudential Sourcebook for Insurers, the RL Group recognises negative mathematical reserves on its regular premium longevity risk transfer arrangements subject to the PRA's restrictions on the level of such reserves.

(e) Acquisition Costs

The costs of acquiring new business are expensed during the financial year in which they are incurred.

(f) Reinsurance

Long term business is ceded to reinsurers under contracts to transfer part or the insurance risk associated with the underlying insurance contracts. Such contracts are accounted for as insurance contracts provided the risk transfer is significant.

The amounts that will be recoverable from reinsurers is estimated based upon the gross provisions, having due regard to collectability. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of the reinsurance company. The reinsurers' share of claims paid, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of claims paid or incurred during the year. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the Consolidated Statement of Comprehensive Income as 'Premiums Ceded to Reinsurers' when due.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently when an indication of impairment arises during the financial reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the Reinsurance asset that the RL Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the RL Group will receive from the reinsurer. Any impairment loss is recorded in the Comprehensive Statement of Comprehensive Income.

(g) Investment Income

Investment income comprises all Investment income, realised investment gains and losses and movements in unrealised gains and losses.

Dividends on money market securities held in collective investment schemes are included as investment income on the date the units are created. Interest is accounted for on an accruals basis.

Realised gains and losses on investments carried at fair value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the fair value at the Consolidated Statement of Financial Position date and their purchase price.

(h) Finance Costs

Finance costs comprise finance costs and interest payable on financial liabilities. Expenses are accounted for on an accruals basis.

(i) Operating Leases

A lease is classified as an operating lease if it does not transfer substantially all the risk and rewards incidental to ownership.

Payments made under operating leases, net of any investments received from the lessor, are charged to profit and loss on a straight line basis over the term of the lease. When the lease includes a rent free period, the lessee recognises the aggregate benefit of the incentive as a reduction of rental expense over the lease term on a systematic basis.

Notes to the Financial Statements (continued)

Note 1 – Accounting Policies (continued)

(j) Property, Plant and Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight basis over the useful life of the following classes of assets:

Computer Equipment: 3 years

Furniture and Fittings: 5 years

(k) Financial Investments

Financial Investments are classified, at initial recognition, as financial investments at fair value through profit or loss, with the exception of receivables, cash, and prepayments and accrued interest which are carried at amortised cost.

Financial Investments at Fair Value Through Profit and Loss

Financial investments at fair value through profit or loss are both financial investments held for trading and financial investments designated upon initial recognition at fair value. Financial investments at fair value through profit or loss are carried in the Consolidated Statement of Financial Position at fair value with net changes in fair value presented in investment income. Financial investments include collective investment schemes, government and agency obligations, derivative assets, corporate debt, and collateralised agreements and financing.

Derecognition

A financial investment (or, where applicable, a part of a financial investment or part of a company of similar financial investments) is primarily derecognised (i.e. removed from the RL Group's Statement of Financial Position) when:

- The rights to receive cash flows from the investment have expired; or
- The RL Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the RL Group has transferred substantially all the risks and rewards of the asset, or (b) the RL Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the investment.

When the RL Group has transferred its rights to receive cash flows from an investment or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the investment, nor transferred control of the investment, the RL Group continues to recognise the transferred investment to the extent of the RL Group's continuing involvement. In that case, the RL Group also recognises an associated liability. The transferred investment and the associated liability are measured on a basis that reflects the rights and obligations that the RL Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the RL Group could be required to repay.

Notes to the Financial Statements (continued)

Note 1 – Accounting Policies (continued)

(l) Collateralised Agreements and Financing

Collateralised agreements (securities purchased under agreements to resell and deposits placed as collateral for stock borrowed) and collateralised financing (securities sold under agreements to repurchase and deposits received as collateral for stock loans) are treated as collateralised financing transactions and are carried at fair value through profit and loss under the fair value option. The collateral can be in the form of cash or securities. Cash collateral is recognised/derecognised when received/paid. Collateral posted by the RL Group in the form of securities is not derecognised from the Consolidated Statement of Financial Position, whilst collateral received in the form of securities is not recognised on the Consolidated Statement of Financial Position. If collateral received is subsequently sold, the obligation to return the collateral and the cash received are recognised in the Statement of Financial Position.

(m) Fair Value

The fair value of a financial instrument is the 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, i.e. the exit price. Financial investments are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. Fair value gains or losses are included in investment income.

The best evidence of fair value is a quoted price in an active market. If listed prices or quotations are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets, or internally developed models that primarily use, as inputs, market based or independently sourced parameters, including but not limited to interest rates, volatilities, equity or debt prices, foreign exchange rates, credit curves and funding rates. The fair value of certain financial investments and financial liabilities require valuation adjustments for counterparty credit quality, funding risk, transfer restrictions, illiquidity and bid/offer inputs.

Cash instruments such as corporate debt securities, covered bonds, government and agency obligations and certain money market instruments are valued by verifying to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g. indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources. Valuation adjustments are typically made (i) if the cash instrument is subject to regulatory or contractual transfer restrictions and/or (ii) for other premiums and discounts that a market participant would require to arrive at fair value. Valuation adjustments are generally based on market evidence.

Certain cash instruments, including collateralised agreements and financing have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, these instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. When a pricing model is used, the model is adjusted so that the model value of the cash instrument at inception equals the transaction price. Subsequently, the RL Group uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realised on sales.

The RL Group's derivative contracts consist primary of over the counter ('OTC') derivatives. OTC derivatives are generally valued using market transactions and other market evidence, including market based inputs to models, calibration to market clearing transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g. indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Where models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of and specific risks inherent in the instrument, as well as the availability of pricing information in the market. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, model selection does not involve significant management judgement because outputs of models can be calibrated to market clearing levels.

Notes to the Financial Statements (continued)

Note 1 – Accounting Policies (continued)

(m) Fair Value (continued)

Certain OTC derivatives are valued using models which utilise inputs that can be observed in the market, as well as unobservable inputs. Unobservable inputs typically include certain correlations as well as credit spreads, that are long dated or derived from trading activity in inactive or less liquid markets. Subsequent to the initial valuation of such derivatives, the RL Group updates the observable inputs to reflect observable market changes. Unobservable inputs are changed when corroborated by evidence such as similar market transactions, third party pricing services and/or broker or dealer quotations or other empirical market data. In circumstances where the RL Group cannot verify the model value by reference to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

(n) Taxation

Current Income Tax

Income tax assets and liabilities for the current year and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities, or paid to or recovered from other group companies in respect of group relief surrendered or received. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the financial statement date.

Deferred Income Tax

Deferred income tax is provided using the liability method on temporary differences at the financial statement date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax and liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss, and

- In respect of taxable temporary differences associated with investments in subsidiary undertakings, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which to offset them except:

- When the Deferred Income Tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss or the taxable profit or loss; and

- The carrying amount of Deferred Income Tax assets is reviewed at each financial reporting date and that reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each financial reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the financial reporting date.

Notes to the Financial Statements (continued)

Note 1 – Accounting Policies (continued)

(n) Taxation (continued)

Deferred income tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income tax relates to the same taxable entity and the same taxation authority.

(o) Foreign Currencies

Transactions denominated in foreign currencies are translated into sterling at rates of exchange ruling on the date the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the Consolidated Statement of Financial Position date. Gains and losses on exchange are recognised in operating expenses.

(p) Dividends

Final dividends are recognised in the year that they are approved by the shareholders. Interim dividends are recognised in the year that they are paid. These dividends are debited directly to equity.

Note 2 – Segmental Analysis

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

	Regular premiums		Single premiums	
	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Group pension bulk annuities	273,567	255,224	1,405,768	1,372,835
Total Gross Premiums Written	**273,567**	**255,224**	**1,405,768**	**1,372,835**

During 2014 premiums from four bulk annuity customers each made up more than 10% of the RL Group's total gross written premium (2013:four bulk annuity customers), generating premiums of £1,109.7m (2013:£1,371.9m).

Notes to the Financial Statements (continued)

Note 3 – Net Claims and Change in Insurance Contract Liabilities

	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Claims Paid		
Gross claims paid	(700,560)	(576,207)
Reinsurance recoveries	408,607	338,260
Change in the provision for claims outstanding	680	3,520
	(291,273)	**(234,427)**
Change in Insurance Contract Liabilities		
Gross change in Insurance contract liabilities	(2,528,646)	(624,762)
Reinsurance recoveries	124,575	(76,282)
	(2,404,071)	(701,044)
Net Claims and Change in Insurance Contract Liabilities	(2,695,344)	(935,471)

Note 4 – Operating Expenses

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

	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Acquisition costs	37,960	36,216
Administration expenses - recurring	8,585	3,514
Administration expenses - project other	14,776	246
	61,321	**39,976**

The following items have been included in operating expenses:	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Operating lease rental expense for office premises	420	-

Notes to the Financial Statements (continued)

Note 5 – Finance Costs

	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Interest payable on collateral	1,511	676
Interest payable on overnight loans	23	66
Interest payable on borrowings from participating interest	-	1,292
Interest payable on borrowings from affiliates	4,909	4,999
Net Finance Costs	**6,443**	**7,033**

Note 6 – Employee Information

All person's involved in the RL Group's operations are employed by a wider group undertaking, RPML. The charges made by RPML for all the services provided (personnel and other) to the Group are included in the management fees charged by group undertakings.

	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Directors' Remuneration		
Aggregate emoluments	1,430	639
Company pension contributions to money purchase schemes	21	4
	1,345	**643**
Highest Paid Director		
Total amount of emoluments	1,051	471
Company pension contributions to money purchase schemes	6	3
	1,058	**474**

In accordance with the Companies Act 2006, Directors' emoluments above represent the proportion of total emoluments paid or payable in respect of qualifying services. This total does not include the value of equity awards in accordance with the provisions of Schedule 5 of SI 2008/410.

During 2013 Directors' also received emoluments for non-qualifying services which were not required to be disclosed.

No Directors have been granted shares in respect of long term incentive schemes. No Directors have exercised options during the year.

Notes to the Financial Statements (continued)

Note 7 – Auditors' Remuneration

Fees paid and payable to the RL Group's auditors are as follows:

	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Remuneration receivable by the RL Group's auditors for the audit of the consolidated and company financial statements	298	308
Remuneration receivable by the RL Group's auditors for the audit of the financial statements of the Company's subsidiary	121	-
Audit related assurance services	147	62
Total Audit	**566**	**370**
Other assurance services	-	-
Total Fees	**566**	**370**

Note 8 – Taxation

The major components of the income tax expense for the years ended 31st December 2014 and 2013 are:

(a) Tax charged in the income statement

	Year ended 31 December 2014 £000s	Year ended 31December 2013 £000s
Current income tax:		
UK corporation tax	57,479	37,460
Adjustments in respect of prior years	-	16
Total Current Income Tax	57,479	37,476
Deferred tax:		
Origination and reversal of temporary differences	(394)	3,277
Impact of changes in tax laws and rates	-	464
Total Deferred Tax	(394)	3,741
Total Expense in the Income Statement	57,085	41,217

Notes to the Financial Statements (continued)

Note 8 – Taxation (continued)

(b) Reconciliation of the total tax charge

The tax expense in the Consolidated Statement of Comprehensive Income for the year and the standard rate of corporation tax in the UK of 21.49% (2013: 23.25%) is reconciled below:

	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Profit from continuing operations before tax	259,983	184,396
Tax calculated at UK standard rate of corporation tax of 21.49% (2013: 23.25%)	55,870	42,872
Adjustment to tax charge in respect of prior years	207	16
Expenses not deductible for tax purposes	14,303	-
Income not subject to corporation tax	(12,115)	-
Tax losses on which deferred tax asset recognised	(13)	-
Impact of changes in tax laws and rates	-	(464)
Utilisation of losses surrendered by group undertakings	(1,167)	-
Utilisation of previously unrecognised tax losses	-	(1,207)
Total Tax Expense Reported in the Consolidated Statement of Comprehensive Income	**57,085**	**41,217**

Note 9 – Investment Return

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

	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Interest income on financial investments at fair value through profit and loss	270,321	168,866
Realised gains/(losses) on financial investments	564,189	(58,000)
Unrealised gains/(losses) on financial investments	895,260	(210,841)
Investment expenses	(7,247)	-
Gain on acquisition of subsidiary undertaking	56,413	-
Total Investment Return	**1,778,936**	**(99,975)**

Notes to the Financial Statements (continued)

Note 10 – Business Combinations

Acquisition of Rothesay Assurance Limited

On 16th May 2014, the Company acquired 100% of the ordinary shares of MetLife Assurance Limited for a cash consideration of £421.4m. MetLife Assurance Limited was the UK bulk annuity business of MetLife Inc. The acquisition was consistent with the Company's strategy to supplement organic growth. MetLife Assurance Limited was renamed Rothesay Assurance Limited on 23rd June 2014.

	£000s
Cash paid as part of consideration	(421,381)
Cash and cash equivalent received	66,567
Net Cash Outflow	**(354,814)**

The fair value of the assets and liabilities at the date of acquisition was as follows:

	Fair value recognised on acquisition £000s	Previous carrying value £000s
Financial investments	3,039,214	3,039,214
Receivables	67,963	69,963
Cash and cash equivalents	66,567	66,567
	3,173,744	**3,175,744**
Gross insurance contract liabilities	(2,623,545)	(2,687,945)
Payables	(72,405)	(72,405)
	(2,695,950)	**(2,760,350)**
Total Identifiable Net Assets	**477,794**	**415,394**
Gain on bargain purchase arising on acquisition	(56,413)	
Total Consideration	**421,381**	

Note 11 – Investment in Unconsolidated Structured Entities

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

As at 31st December 2014 our total interest in such entities, reflected on the RL Group's consolidated balance sheet and classified as financial investments held at fair value through profit or loss, was £1,156m (2013: £742m).

Notes to the Financial Statements (continued)

Note 12 – Property, Plant and Equipment

	Furniture and Fittings £000s	Total £000s
Cost		
As at 1 January 2014	-	-
Additions	1,524	1,524
Disposals	-	-
As at 31 December 2014	**1,524**	**1,524**
Accumulated Depreciation		
As at 1 January 2014	-	-
Charge for the year	-	-
Disposals	-	-
As at 31 December 2014	-	-
Net Book Value		
As at 31 December 2014	**1,524**	**1,524**
As at 31 December 2013	-	-

As part of the development of fully independent infrastructure and computer systems the RL Group moved into new premises during early 2015. Furniture and Fittings additions reflect the build out of the office in preparation for the move. The fit out was completed during December 2014 and therefore no depreciation has been charged during the year.

Notes to the Financial Statements (continued)

Note 13 – Financial Investments

The RL Group's Financial Investments are grouped in a single category:

	31 December 2014 £000s	31 December 2013 £000s
Financial Investments	20,989,390	11,300,849

This is made up of:

	Current Value		Cost	
	31 December 2014 £000s	31 December 2013 £000s	31 December 2014 £000s	31 December 2013 £000s
Collective investment schemes	726,307	425,237	419,112	217,873
Government and agency obligations	5,855,467	2,505,789	5,147,966	2,257,550
Corporate debt	5,076,291	3,083,115	4,576,895	3,198,847
Derivative assets	5,801,994	2,407,740	201,791	320,988
Collateralised agreements and financing	3,400,828	2,878,968	3,177,387	2,953,499
Certificates of deposit	128,503	-	93,671	-
	20,989,390	**11,300,849**	**13,616,822**	**8,948,757**

Note 14 – Fair Value

Determination of fair value and fair values hierarchy

The RL Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

Notes to the Financial Statements (continued)

Note 14 – Fair Value (continued)

The following tables shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy for 2014 and 2013:

31 December 2014

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

31 December 2013

	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial investments:				
Collective investment scheme	425,237	-	-	425,237
Government and agency obligations	941,533	1,564,256	-	2,505,789
Corporate debt	27,898	2,093,327	961,890	3,083,115
Derivative assets	-	2,403,762	3,978	2,407,740
Collateralised agreements and financing	-	2,326,201	552,767	2,878,968
Total Financial Investments at Fair Value	**1,394,668**	**8,387,546**	**1,518,635**	**11,300,849**
Financial liabilities:				
Derivative financial instruments	-	2,247,464	18,697	2,266,161
Collateralised financing agreements	-	1,281,069	-	1,281,069
Total Financial Liabilities at Fair Value	-	**3,528,533**	**18,697**	**3,547,230**

Around 1% (2013:13%) 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 14 – Fair Value (continued)

The following table shows a reconciliation of the opening and closing recorded amounts in relation to the Level 3 financial instruments recorded at fair value:

	Corporate debt £000s	Collateralised agreements £000s	Derivatives £000s	Total £000s
At 1 January 2014	**961,890**	**552,767**	**(14,719)**	**1,499,938**
Acquisition at market value	6,942	-	7,474	14,416
Total gains in the Statement of Comprehensive Income:				
Unrealised gains/(losses)	25,693	-	9,850	35,543
Transfer into level 3	24,511	-	-	24,511
Transfer out of level 3	(812,535)	(552,767)	(7,474)	(1,372,776)
Purchases/additions/ sales/disposals	41,908	-	-	41,908
At 31 December 2014	**248,409**	**-**	**(4,869)**	**243,540**
At 1 January 2013	**10**	**543,606**	**183,829**	**727,445**
Total gains in the Statement of Comprehensive Income:	-	-	-	-
Unrealised gains/(losses)	-	9,161	-	9,161
Transfer into level 3	44,660	-	-	44,660
Purchases/additions	917,220	-	3,977	921,197
Other	-	-	(202,525)	(202,525)
At 31 December 2013	**961,890**	**552,767**	**(14,719)**	**1,499,938**

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

During the year, the RL Group transferred certain financial instruments between Level 2 and Level 3 of the fair value hierarchy. The recorded amount of the total assets transferred from Level 2 to Level 3 is £24.5m (2013:£44.7m) and from Level 3 to Level 2 is £1,372.8m (2013: nil). The reason for the change is a change in the availability of observable market transactions or broker quotes for the same or similar instruments

Notes to the Financial Statements (continued)

Note 14 – Fair Value (continued)

Sensitivity of Level 3 Financial Instruments Measured at Fair Value to Changes in Key Assumptions

The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions by class of instrument:

Impact on Financial Assets and Liabilities	Main Assumptions	Sensitivity	Current FV	2014 Decrease in FV	Increase in FV
			£000s	£000s	£000s
Financial Assets					
Corporate debt	Discount rate	+/50bps interest rate	248,409	(23,733)	23,733
Derivative assets	Expected defaults	+/-50bps credit spread	1,786	(472)	472
Financial Liabilities					
Derivative liabilities	Expected defaults	+/-50bps credit spread	(6,654)	(1,099)	1,099

Impact on Profit Before Tax	Main Assumptions	Sensitivity	Current FV	2014 Decrease in FV	Increase in FV
			£000s	£000s	£000s
Financial Assets					
Corporate debt	Discount rate	+/50bps interest rate	248,409	(7,509)	7,509
Derivative assets	Expected defaults	+/-50bps credit spread	1,786	(472)	472
Financial Liabilities					
Derivative liabilities	Expected defaults	+/-50bps credit spread	(6,654)	(1,099)	1,099

Impact on Financial Assets and Liabilities	Main Assumptions	Sensitivity	Current FV	2013 Decrease in FV	Increase in FV
			£000s	£000s	£000s
Financial Assets					
Corporate debt	Discount rate	+/50bps interest rate	961,891	(48,521)	48,521
Derivative assets	Expected defaults	+/-50bps credit spread	3,977	(7,272)	7,272
Collateralised agreements and financing	Discount rate	+/-50bps Interest rate	552,765	(7,699)	7,699
Financial Liabilities					
Derivative liabilities	Expected defaults	+/-50bps credit spread	(18,697)	(1,245)	1,245

Notes to the Financial Statements (continued)

Note 14 – Fair Value (continued)

Sensitivity of Level 3 Financial Instruments Measured at Fair Value to Changes in Key Assumptions (continued)

Impact on Profit Before Tax	Main Assumptions	Sensitivity	2013 Current FV £000s	Decrease in FV £000s	Increase in FV £000s
Financial Assets					
Corporate debt	Discount rate	+/50bps interest rate	961,891	(16,206)	16,206
Derivative assets	Expected defaults	+/-50bps default probability	3,977	(7,272)	7,272
Collateralised agreements and financing	Discount rate	+/-50bps interest rate	552,765	-	-
Financial Liabilities					
Derivative liabilities	Expected defaults	+/-50bps default probability	(18,697)	(1,245)	1,245

The fair value recognised of certain debt securities classified as level 3 instruments is determined using inputs that are not based on observable market data. The valuation model discounts the future cash flows using interest rate swap curve in addition to a spread to reflect the associated credit and liquidity risk. The sensitivities shown above assume all other pricing inputs remain constant.

Note 15 – Receivables

	31 December 2014 £000s	31 December 2013 £000s
Deposits pledged as collateral to third parties	349,273	56,738
Amounts due from group undertakings	5,570	-
Amounts due from undertakings with participating interest	1,979	12,954
Tax receivable	16	16
Other debtors	895	675
	357,733	70,383

All receivables are due within one year. The fair value of receivables is £357.7m (2013: £70.4m).

The net exposure to certain OTC derivatives is collateralised through cash, as per the terms of the OTC contracts. At 31st December 2014, the total cash collateral was £349.3m (2013: £56.7m). Further details of the full extent of collateral usage can be found in the credit risk disclosure in Note 27.

Notes to the Financial Statements (continued)

Note 16 – Deferred Taxation

Deferred tax balances comprise:	31 December 2014 £000s	31 December 2013 £000s
Temporary differences between the financial statements and the tax deductions for insurance liabilities	(3,429)	(2,914)
	(3,429)	**(2,914)**

The movements in the deferred tax balances were as follows:

	31 December 2014 £000s	31 December 2013 £000s
At 1 January	(2,914)	827
Impact of tax rate change on opening balance	-	464
Tax losses utilised	-	(4,577)
Consolidation adjustment	(909)	-
Capital allowances	(58)	-
Transitional adjustments	452	372
At 31 December	**(3,429)**	**(2,914)**

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

On 8th July 2015 proposed changes to the main rate of UK corporation tax were announced. The changes propose to reduce the rate from 20% to 19% by 1 April 2017 and to 18% by 1 April 2020. The changes had not been substantively enacted at the balance sheet date and therefore, are not recognised in these financial statements. Had they been substantially enacted they would have reduced the deferred tax liability by £0.5m.

Note 17 – Accrued Interest and Prepayments

	31 December 2014 £000s	31 December 2013 £000s
Accrued interest	117,744	77,245
Prepaid expenses	13,072	618
	130,816	**77,863**

Note 18 – Cash and Cash Equivalents

The cash at bank and in hand of the RL Group at the year end are as follows:	31 December 2014 £000s	31 December 2013 £000s
Cash at bank and in hand	106,711	88,983
	106,711	**88,983**

Notes to the Financial Statements (continued)

Note 19 – Insurance Contract Liabilities

Key Valuation Assumptions

This note details the assumptions with the greatest impact on the RL Group's insurance contract liability valuations.

(a) Mortality Assumptions

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

	31 December 2014		31 December 2013	
	Males	Females	Males	Females
Base mortality	101.8% S1PMA	101.8% S1PFA	95.7% S1PMA	95.7% S1PFA
Mortality improvements	CMI_2012_M[2.7%]	CMI_2012_F[2.2%]	CMI_2012_M[2.25%]	CMI_2012_F[1.85%]

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

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

Mortality assumptions are set with reference to standard tables drawn up by the Continuous Mortality Investigation Bureau ('CMIB') of the Institute and Faculty of Actuaries. These tables are based on industry-wide experience. For this year the mortality tables used were adjusted for the final scheme remaining on PCMA00 and PCFA00 standard tables to use a set percentage of the S1 suite of tables. All other schemes were converted during 2013.

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

Prudent margins are then applied to the demographic basis to reflect the fact that future experience for the schemes may differ from that assumed. Since the previous valuation the shape of the prudent margins applied has been revised to be more reflective of reinsurance pricing.

Notes to the Financial Statements (continued)

Note 19 – Insurance Contract Liabilities (continued)

Key Valuation Assumptions (continued)

(b) Valuation Rate of Interest

The valuation rate of interest used to discount the cash flows for the purpose of valuing insurance contract liabilities is based on the PRA Pillar 1 regulatory requirements, as modified by a waiver granted by the PRA in 2008 and renewed in 2013 to allow the RL Group to reflect the yield (internal rate of return) on the combined matching assets rather than an average yield based on market value weighted durations. It is determined based on the yield obtainable on the basket of assets matching the PRA Pillar 1 mathematical reserves at 31st December 2014.

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

	31 December 2014	31 December 2013
Equivalent valuation discount rate	2.90%pa	4.02%pa

This reflects both the prescribed PRA 2.5% prudential margin applied to the risk adjusted internal rate of return obtained on the basket of matching assets and the allowance for investment management expenses of 3bps p.a. (2013: 3bps p.a).

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

The table below shows the average yield deduction at 31st December 2014 and 31st December 2013 by asset category:

Asset Class	Average yield reduction	
	2014	2013
UK Government approved securities	0 bps	0bps
Corporate bonds after allowance for covering credit default swaps	0 bps	0bps
Secured Lending	6 bps	8bps
Supranational/Other Sovereign	18 bps	16bps
Secured Residential Lending	33 bps	30bps
Infrastructure	82 bps	79bps
Other	31 bps	30bps
Overall	**18bps**	**16bps**

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

Notes to the Financial Statements (continued)

Note 19 – Insurance Contract Liabilities (continued)

Key Valuation Assumptions (continued)

(c) Expenses

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

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. (2013: 0.25% p.a.) for the overhead maintenance expenses and an addition at each duration of 1.00% p.a. (2013: 1.00% p.a.) for the TPA expenses.

Other Assumptions

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

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

Notes to the Financial Statements (continued)

Note 19 – Insurance Contract Liabilities (continued)

Key Valuation Assumptions (continued)

(d) Movements in Insurance Contract Liabilities

	31 December 2014			31 December 2013		
	Insurance Liabilities	Reinsurance Assets	Net Liabilities	Insurance Liabilities	Reinsurance Assets	Net Liabilities
	£000s	£000s	£000s	£000s	£000s	£000s
Carrying amount at 1 January	6,953,306	164,325	6,788,981	6,323,645	240,607	6,083,038
RAL value at acquisition	2,623,545	-	2,623,545	-	-	-
Increase in respect of new business	1,282,942	56,225	1,226,717	1,322,798	8,185	1,314,613
Release of liabilities/liabilities discharged	(404,416)	20,099	(424,515)	(205,093)	18,089	(223,182)
Effect of non-economic assumption changes	30,708	(27,058)	57,766	(170,444)	(86,203)	(84,241)
Effect of economic assumption changes	1,629,421	75,063	1,554,358	(317,600)	(16,353)	(301,247)
Other	(9,824)	-	(9,824)	-	-	-
Closing Balance at 31 December	**12,105,682**	**288,654**	**11,817,028**	**6,953,306**	**164,325**	**6,788,981**

The table above details the change in the gross and net insurance liabilities over the year. 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 year.

Effect of Changes in Assumptions and Estimates During the Year

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

Change in assumptions used	**Net Increase/ (Decrease) in liabilities £000s**
Valuation interest rates	1,787,053
Inflation	(232,695)
Demographics	50,602
Expenses	6,862
	1,611,822

As shown previously the valuation interest rate decreased by 1.12% over the year which led to the £1.8bn movement in the liability shown. This change was predominantly due to significant changes in interest rates for example a benchmark 30 year swap fell 1.16% in the year.

The movement in the demographic assumptions shown reflects the changes to mortality assumptions and prudent margins applied during the year leading to a £51m increase in liabilities.

Notes to the Financial Statements (continued)

Note 19 – Insurance Contract Liabilities (continued)

Key Valuation Assumptions (continued)

(e) Sensitivity Analysis

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

2014	Change in Assumptions	Increase/ (decrease) on liabilities	Increase/ (decrease) on PBT	Impact on Equity
		£000s	£000s	£000s
Annuitant mortality	+%5 qx	(96,999)	96,999	76,154
Annuitant mortality	-%5 qx	102,408	(102,408)	(80,401)
Interest rate	+100bps	(1,755,204)	24,649	19,352
Interest rate	-100bps	2,279,806	879	690
Inflation	+100bps	840,470	12,726	9,991
Inflation	-100bps	(780,841)	63,088	49,530
Long term credit default assumption	+10bps	729	(41,127)	(32,289)
Long term credit default assumption	-10bps	(729)	42,706	33,529
Expenses	+10%	24,269	(24,269)	(19,054)

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

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

2014	Change in Assumptions	Increase/ (decrease) on Insurance Liability	Increase/ (decrease) on Reinsurance Asset	Net increase/ (decrease) on liabilities
		£000s	£000s	£000s
Annuitant mortality	+5% qx	(333,549)	236,550	(96,999)
Annuitant mortality	-5% qx	355,568	(253,159)	102,409

As can be seen from the table above the impact of the reinsurance is to reduce the sensitivity to mortality risk by 71%.

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

The table below shows the discounted insurance liability cash flows, which are expected to arise during each year:

	31 December 2014			
	Less than 1 year	1 to 5 years	Over 5 years	Total
	£000s	£000s	£000s	£000s
Insurance liability cash flows	486,363	1,850,609	9,768,710	12,105,682
Reinsurance asset cash flows	24,659	89,618	(402,931)	(288,654)
	511,022	**1,940,227**	**9,365,779**	**11,817,028**

Notes to the Financial Statements (continued)

Note 19 – Insurance Contract Liabilities (continued)

Key Valuation Assumptions (continued)

(e) Sensitivity Analysis (continued)

	31 December 2013			
	Less than 1 year £000s	1 to 5 years £000s	Over 5 years £000s	Total £000s
Insurance liability cash flows	350,515	1,322,318	5,280,473	6,953,306
Reinsurance asset cash flows	17,254	51,839	(233,418)	(164,325)
	367,769	**1,374,157**	**5,047,055**	**6,788,981**

Note 20 – Reinsurance Assets

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

	31 December 2014 £000s	31 December 2013 £000s
Reinsurance of insurance contract liabilities	288,654	164,325

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

An analysis of the movement in reinsurance of insurance contract liabilities is included in Note 19.

At 31st December 2014 the RL Group conducted an impairment review of the reinsurance assets and found no impairment necessary.

Notes to the Financial Statements (continued)

Note 21 – Payables and Financial Liabilities

	31 December 2014 £000s	31 December 2013 £000s
Derivative financial instruments	5,551,149	2,266,161
Collateralised financing agreements	2,022,430	1,281,069
Deposits received as collateral from third parties	640,953	40,168
Deposits received as collateral for derivatives from participating interest	464,506	224,110
Amounts due to group undertakings	13,704	6,923
Current tax payable	47,031	35,330
Other payables	3,993	203,524
	8,743,766	**4,057,285**

The net exposures to certain OTC derivatives are collateralised through cash. As at 31st December 2014, the total cash collateral received was £1,105.5m (2013: £264.3m). Other OTC contracts are collateralised with fixed income securities which are not recognised on the Consolidated Statement of Financial Position.

At 31st December 2013 other payables included a £200m payable in relation to bonds purchased with settlement dates after the year end.

Note 22 – Borrowings

The RL Group's borrowings are as follows:

	31 December 2014 £000s	31 December 2013 £000s
Affiliate subordinated loan	100,000	100,000

The amounts outstanding at 31st December 2014 consist of floating rate perpetual callable securities issued to an affiliate. The securities issued are unsecured and carry deferrable interest at six month sterling LIBOR plus 425bps per annum. These securities are callable at par on 21st December 2017 and every six months thereafter. The principal constitutes regulatory capital. The repayment of the securities are subject to PRA consent.

The fair value of borrowings is £100m (2013: £100m).

Notes to the Financial Statements (continued)

Note 23 – Share Capital

At 31st December 2014 and 31st December 2013 share capital comprised:

	31 December 2014		31 December 2013	
	No.	£000s	No.	£000s
Authorised share capital (ordinary shares of £1 each)	183,900,840	183,901	155,120,923	155,121

On 16th May 2014 the Company allotted 28,779,840 shares of £1.00 each to RHUK, the ultimate parent of RLL. The total cash consideration received was £116.3m, reflecting share premium of £87.5m.

Note 24 – Share Premium Account and Reserve

	Share premium £000s	Retained earnings £000s
At 1 January 2014	112,379	301,963
Profit for the financial year	-	202,899
Shares issues	87,475	-
At 31 December 2014	**199,854**	**504,862**

Note 25 – Dividends

	31 December 2014 £000s	31 December 2013 £000s
Interim Ordinary Share Dividends (£1.81 per £1.00 ordinary share)	-	281,000
	-	**281,000**

The Directors have recommended that no interim ordinary dividends be paid (2013:£281m).

The Directors have recommended that no final ordinary dividend in respect of the year be paid. (2013:£nil).

Notes to the Financial Statements (continued)

Note 26 – Derivatives

The RL Group utilises derivative financial instruments as part of its asset/liability risk management practice. It enters into derivative contracts to match the Insurance Contract Liabilities arising on Insurance Contracts that it issues.

The following table shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying assets, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	31 December 2014			31 December 2013		
	Assets £000s	Liabilities £000s	Notional Amount £000s	Assets £000s	Liabilities £000s	Notional Amount £000s
Derivatives Held for Risk Management:						
Interest rate swap	4,641,488	(4,267,001)	75,617,910	2,029,005	(1,717,851)	51,708,091
Inflation swap	1,039,317	(1,077,421)	24,609,061	309,231	(473,342)	21,348,989
Currency swap	109,165	(120,689)	8,159,240	64,358	(29,133)	4,773,840
Credit derivative	11,923	(76,133)	3,449,834	5,103	(34,974)	695,974
Foreign currency forwards	101	(9,905)	946,626	43	(10,861)	397,712
	5,801,994	(5,551,149)	112,782,671	2,407,740	(2,266,161)	78,924,606

At their inception, derivatives often involve only a mutual exchange of promises, with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the RL Group. Over-the-counter derivatives may expose the RL Group to the risks associated with the absence of an exchange market on which to close out an open position.

Notes to the Financial Statements (continued)

Note 26 – Derivatives (continued)

The RL Group's exposure under derivative contracts is closely monitored as part of the overall management of the RL Group's market risk (see also Note 27). As of 31st December 2014, the RL Group had positions in the following types of derivatives:

Interest rate swaps

Interest rate swaps are contractual agreements between two parties to exchange movements in interest rates. Typically, for an interest rate swap, a floating rate interest stream will be exchanged for a fixed rate or vice versa. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

Inflation swaps

The RL Group uses inflation swaps and options to hedge the inflation linked benefits on the pension liabilities of the UK insurance business.

Currency swaps

In a currency swap, the RL Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross–settled.

Credit derivatives

The RL Group uses credit derivatives to hedge counterparty risk of its assets in the event of default of corporate or sovereign bonds.

Forward and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts traded in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk. The RL Group has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange help ensure that these contracts are always honoured. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

Notes to the Financial Statements (continued)

Note 27 – Financial Risk Management

The RL Group is exposed to financial risk through its financial assets, financial liabilities and Insurance Contract Liabilities. These risks, described below, are managed in accordance with risk management policies and procedures established by the RL Group.

The Board Risk Committee advises and make recommendations to the Board of Directors to assist it in providing leadership, direction and oversight of the RL Group's risk appetite, risk strategy and risk management framework and of the risk aspects of major investments and corporate transactions. The Board Risk Committee has oversight of the Working Level Risk Committee, which is an executive committee and is assigned responsibility for the on-going monitoring and control of the financial and insurance risks associated with the activities of the RL Group.

In addition to the committees, independent functions such as Compliance, Finance (including Risk Management), Legal, Internal Audit and Operations, perform risk management functions, which include assessing, monitoring, reporting and evaluating risk.

Market Risk

Market risk is the risk of changes in the value of the RL Group's net asset position due to changes in market prices. Financial investments are accounted for at fair value and, therefore, fluctuate on a daily basis. Categories of market risk include the following:

- Interest rate risk arises from discounting cash flow mismatches across all future dates. Profits and losses are generated through changes in the level, slope and curvature of interest rate curves. The risk is hedged using interest rate swaps.
- Inflation rate risks results from mismatches in the index linkage of annuities and assets. Profits and losses are generated through changes to the level, slope and curvature of inflation curves. The risk is hedged using inflation swaps.
- Currency rate risk results from mismatches in the denomination of annuities and assets. Profits and losses are generated due to changes in the level of foreign exchange rates. The risk is hedged using spot foreign exchange and cross currency swaps.

The RL Group manages market risk by diversifying exposures, controlling position sizes and establishing economic hedges in related securities, derivatives and insurance liabilities.

This includes:

- Accurate and timely exposure information incorporating multiple risk metrics;
- A dynamic limit setting framework; and
- Constant communication between risk management and senior management.

The RL Group's Risk Function, which is independent of management and reports to the Chief Risk Officer, has responsibility for assessing, monitoring and managing market risk. Risks are monitored and controlled through strong oversight and independent control and support functions across the business.

Market risk limits are set by the Board Risk Committee and the Risk Function monitors exposures against those Senior management is responsible and accountable for managing market risks daily within prescribed limits. They have in depth knowledge of their positions, of markets and the instruments available to hedge their exposures.

In addition to applying business judgement, management uses a number of quantitative tools to manage the exposure to market risk for 'Financial Investments' in the Financial Statements. These tools include scenario analyses, stress test and other analytical tools that measure the potential effects on the net revenues of various market events, including, but not limited to, a large widening of credit spreads, as well as volatility in interest, inflation and mortality rates. Management and the Risk Function discuss market information, positions and estimated risk and loss scenarios on an ongoing basis.

Notes to the Financial Statements (continued)

Note 27 – Financial Risk Management (continued)

Market Risk (continued)

Interest Rate Risk Sensitivity Analysis

Change in Variables	31 December 2014 Impact on PBT £000s	Impact on Equity Up to a Year £000s
(+) 1 basis point	125	98
(-) 1 basis point	(125)	(98)

Change in Variables	31 December 2013 Impact on PBT £000s	Impact on Equity Up to a Year £000s
(+) 1 basis point	295	226
(-) 1 basis point	(295)	(226)

There was no change in the method used for deriving sensitivity information and significant variables during the year.

Inflation rate risk sensitivity analysis

Change in Variables	31 December 2014 Impact on PBT £000s	Impact on Equity Up to a Year £000s
(+) 1 basis point	(357)	(280)
(-) 1 basis point	357	280

Change in Variables	31 December 2013 Impact on PBT £000s	Impact on Equity Up to a Year £000s
(+) 1 basis point	(46)	(35)
(-) 1 basis point	46	35

Credit Risk

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty, e.g. an OTC derivatives counterparty or an issuer of corporate debt instruments. Credit risk also comes from cash placed with banks and collateralised financing transactions, (i.e. resale and repurchase agreements) and receivables from customers and counterparties.

Notes to the Financial Statements (continued)

Note 27 – Financial Risk Management (continued)

Credit Risk (continued)

The Board Risk Committee establishes and reviews credit policies and parameters. Policies authorised by the Board Risk Committee prescribe the level of formal approval required to assure credit exposure to a counterparty across all product areas are in line with the risk taking capacity and strategy, taking into account any enforceable netting provisions, collateral or other credit risk mitigants.

The Chief Credit Officer, who is independent of management and reports to the Chief Risk Officer, has responsibility for assessing and monitoring credit risk. Risks are monitored and controlled through strong oversight and independent control and support functions across the business.

Senior management is responsible and accountable for managing credit risks within prescribed limits. They have in depth knowledge of the credit positions, underlying models and the instruments available to hedge the credit exposures.

Effective management of credit risk requires accurate and timely information, a high level of communication and knowledge of customers, countries, industries and products. The process for managing credit risk includes:

- Assessing the likelihood that counterparty will default on its payment obligations;
- Measuring and modelling the RL Group's current and potential credit exposures and losses resulting from counterparty defaults;
- Approving credit risk generated by transactions and investments;
- Determining and reviewing the use of credit risk mitigants, including collateral and hedging;
- Establishing counterparty risk and concentration limits;
- Monitoring and communicating the utilisation of and compliance with established credit exposure limits;
- Identifying, monitoring and managing potential problem credits;
- Performing adequate stress tests to assess the RL Group's vulnerability to certain scenarios and risk concentrations; reporting and where necessary, escalating of credit exposures to senior management, the Working Level Risk Committee, the Board Risk Committee, and possibly the Board of Directors and regulators; and
- Communicating and collaborating with other independent control and support functions such as Operations, Legal and Compliance.

The credit risk management systems capture OTC credit derivative exposure to individual counterparties and on an aggregate basis to counterparties and their subsidiaries (economic groups). These systems also provide management with comprehensive aggregate credit risk by product, credit rating, industry, country and region. This is complemented by an additional platform for the measurement, monitoring, management and reporting of non-OTC credit exposures, including gross receivable exposures.

Risk Mitigants

To reduce the credit exposures on derivatives and collateralised agreement transactions, the RL Group enters into netting agreements with counterparties that permit it to offset receivables and payables with such counterparties that enable it to obtain collateral from them on an upfront or contingent basis and/or terminate transactions if the counterparty's credit rating falls below a specified level.

When the RL Group does not have sufficient visibility into a counterparty's financial strength or when it believes a counterparty requires support from its parent company, the RL Group may obtain third party guarantees of the counterparty's obligations. The RL Group also mitigates its credit risk using credit derivatives.

Notes to the Financial Statements (continued)

Note 27 – Financial Risk Management (continued)

Credit Risk (continued)

Credit Exposures

The RL Group's credit exposures are described further below.

Cash and Cash Equivalents. Cash and cash equivalents include both interest bearing and non-interest bearing deposits. To mitigate the risk of credit loss, the RL Group places its deposits with banks assigned minimum ratings in the single A rating category and central banks. Cash deposits with banks rated lower than the single A category are subject to approval by the Board Risk Committee, in line with RL Group's liquidity policy.

OTC Derivatives. Derivatives are reported at fair value on a gross by counterparty basis in the RL Group's Financial Statements unless the RL Group has current legal rights of set off and also intends to settle on a net basis. OTC derivatives are risk managed using the risk processes, measures and limits described above.

A waiver to INSPRU 3.2.5R(3) was granted in July 2010 and renewed in July 2013. This allowed the RL Group to treat a derivative contract with a pension scheme as an admissible asset. The purpose of the derivative contract is to provide a hedge for a specific pension scheme against market risk. The RL Group has hedged this risk with a derivative contract with an approved counterparty.

Collateralised Agreements. The RL Group bears credit risk related to resale agreement and securities borrowed only to the extent that cash advanced to the counterparty exceeds the value of the collateral received. Therefore, the RL Group's credit exposure on the transactions is significantly lower than the amounts recorded on the balance sheet (which represents fair values or contractual value before consideration of collateral received). The RL Group also has credit exposure on repurchase agreements and securities loaned, which are liabilities on its Consolidated Statement of Financial Position, to the extent that the collateral pledged for these transactions exceeds the amount of cash received.

Other Credit Exposures. The RL Group is exposed to credit risk from its receivables from customers and counterparties. Receivables from counterparties are generally comprised of collateralised receivables related to customer securities transactions and have minimal credit risk due to the value of the collateral received. In addition, the RL Group invests in highly rated assets or assets where there is underlying structural security in the event of a default. These assets include supranational sovereign bonds, sub-sovereign bonds and covered bonds.

Notes to the Financial Statements (continued)

Note 27 – Financial Risk Management (continued)

Credit Risk (continued)

The following table identifies the amounts covered by enforceable netting arrangements (netting under master netting agreements, cash collateral and security collateral) but do not qualify for netting under IAS32.

	31 December 2014				
		Related amounts not offset			
	Net amounts of financial assets presented in the statement of financial position	Netting under master netting agreements	Cash collateral	Security collateral	Net credit exposures
	£000s	£000s	£000s	£000s	£000s
Exposure to Credit Risk by Class					
Property, plant and equipment	1,524	-	-	-	1,524
Collective investment schemes	726,307	-	-	-	726,307
Government and agency obligations	5,855,467	-	-	-	5,855,467
Corporate debt	5,076,291	-	-	-	5,076,291
Derivative assets	5,801,994	(3,723,156)	(546,694)	(1,532,144)	-
Collateralised agreements and financing	3,400,828	-	(101,112)	(3,299,716)	-
Certificate of deposits	128,503	-	-	-	128,503
Reinsurance assets	288,654	-	-	-	288,654
Accrued income and prepayments	130,816	-	-	-	130,816
Receivables	357,733	-	-	-	357,733
Cash and cash equivalents	106,711	-	-	-	106,711
	21,874,828	**(3,723,156)**	**(647,806)**	**(4,831,860)**	**12,672,006**

Notes to the Financial Statements (continued)

Note 27 – Financial Risk Management (continued)

Credit Risk (continued)

	31 December 2013				
		Related amounts not offset			
	Net amounts of financial assets presented in the statement of financial position	Netting under master netting agreements	Cash collateral	Security collateral	Net credit exposures
	£000s	£000s	£000s	£000s	£000s
Exposure to Credit Risk by Class					
Collective investment schemes	425,237	-	-	-	425,237
Government and agency obligations	2,505,789	-	-	-	2,505,789
Corporate debt	3,083,115	-	-	-	3,083,115
Derivative assets	2,407,740	(1,374,084)	(248,470)	(785,186)	-
Collateralised agreements and financing	2,878,968	-	(15,808)	(2,863,160)	-
Reinsurance assets	164,325	-	-	-	164,325
Accrued income and prepayments	77,863	-	-	-	77,863
Receivables	70,383	-	-	-	70,383
Cash and cash equivalents	88,983	-	-	-	88,983
	11,702,403	(1,374,084)	(264,278)	(3,648,346)	6,415,695

Right of Offset

As described in the risk mitigants section of this note, the RL Group has the right of offset for certain financial assets and liabilities.

Netting under master netting agreements of £3,723m (2013: £1,374m) reflects the offsetting of derivative assets with liabilities for which the RL Group has a right to set off in the event of default. Cash and security collateral have been offset to the extent there are credit exposures on the balance sheet.

The RL Group has received total security collateral of £5,179.8m (2013: £4,291.7m) of which £4,831.9m (2013: £3,648.3m) has been applied against net exposure, leaving excess of £347.9m (2013: £643.3m). Security collateral exposes the RL Group to further market and credit risk. This is mitigated through the use of haircuts and over collateralisation.

Credit default swaps and total return swaps (which contain credit protection) have been purchased to protect the RL Group from default on corporate bonds. The table above does not reflect the protection provided. The RL Group calls margins, receivable in cash, against this exposure and other derivative positions.

In a distressed situation the value of collateral may vary depending on credit quality and interest rates. The effectiveness of collateral as a credit risk mitigant will depend on the operational expertise of the collateral manager and the ability to seize the collateral in a distressed scenario.

Notes to the Financial Statements (continued)

Note 27 – Financial Risk Management (continued)

Credit Risk (continued)

The table below shows the RL Group's gross and net credit exposure based on external ratings (lowest of Standard & Poor's, Moody's and Fitch ratings). In line with industry standards, Stability Ratings are used to rate the Money Market funds in which the RL Group invests.

£296.4m of the total net credit exposure relates to bonds held within negative basis packages, for which maturity matched credit default swap protection is held.

Net credit exposure is primarily in 'AAA' and 'AA' bonds. AAA assets include supranational bonds, sub sovereigns, covered bonds and certificates of deposit. 'AA' assets include Gilts. Other net credit exposures rated 'A' and 'BBB' include investments in regulated infrastructure assets and UK social housing bonds, which are secured on property assets.

As of current and prior year end there were no financial assets past due or impaired.

	31 December 2014				
		Related amounts not offset			
	Net amounts of financial assets presented in the statement of financial position	Netting under master netting agreements	Cash collateral	Security collateral	Net credit exposures
	£000s	£000s	£000s	£000s	£000s
Exposure to Credit Risk by Rating					
AAA	2,448,404	(46,272)	-	-	2,402,132
AA	8,155,173	(146,946)	-	(1,454,676)	6,553,551
A	7,403,971	(2,509,646)	(238,164)	(2,688,844)	1,967,317
BBB	2,416,223	(971,863)	(291,853)	(442,349)	710,158
BB	191,026	-	(1,600)	(106,018)	83,408
Unrated	1,260,031	(48,429)	(116,189)	(139,973)	955,440
	21,874,828	(3,723,156)	(647,806)	(4,831,860)	12,672,006

The unrated financial assets of £1,260.0m (2013:£115.8m) reflect investments in issuers and issues that are not externally rated. During the year, the RL Group invested in unrated financial assets which are subject to very low credit risk.

Notes to the Financial Statements (continued)

Note 27 – Financial Risk Management (continued)

Credit Risk (continued)

	31 December 2013				
		Related amounts not offset			
	Net amounts of financial assets presented in the statement of financial position	Netting under master netting agreements	Cash collateral	Security collateral	Net credit exposures
	£000s	£000s	£000s	£000s	£000s
Exposure to Credit Risk by Rating					
AAA	1,777,652	-	-	-	1,777,652
AA	3,488,192	-	(10,030)	(709,529)	2,768,633
A	5,058,372	(1,374,084)	(241,841)	(2,348,546)	1,093,901
BBB	1,033,326	-	(9,861)	(363,405)	660,060
BB	229,412	-	(2,546)	(226,866)	-
Unrated	115,449	-	-	-	115,449
	11,702,403	(1,374,084)	(264,278)	(3,648,346)	6,415,695

Liquidity Risk

Liquidity risk arises where timing differences and/or uncertainties occur between cash inflows and cash outflows. The objective of liquidity management is to ensure that the RL Group is capable of honouring all cash flow commitments on both an on-going basis and in a stressed scenario, without incurring significant cost or business disruption. The RL Group liquidity and funding policy is designed to ensure the availability of sufficient funds to meet cash flow requirements on a timely basis via:

- Maintenance of substantial excess liquidity. The RL Group seeks to enter into long term, illiquid contracts that match its liabilities in order to maximise the value of the illiquidity premium. To mitigate residual liquidity risk the RL Group maintains substantial excess liquidity to meet a broad range of potential cash outflows in a stressed environment including financing obligations.

- Conservative asset-liability management. The RL Group seeks to maintain funding sources that are sufficiently long term in order to withstand a prolonged or severe liquidity-stressed environment without having to rely on asset sales.

The Risk function which is independent of management and reports to the Chief Risk Officer, has primary responsibility for assessing, monitoring and managing liquidity risk. Risks are monitored and controlled through strong oversight and independent control and support functions across the business.

Senior management is responsible and accountable for managing liquidity risks within prescribed limits that are set by the Board and are overseen by the Board Risk Committee.

Notes to the Financial Statements (continued)

Note 27 – Financial Risk Management (continued)

Liquidity Risk (continued)

The following table details the RL Group's financial liabilities and assets by contractual maturity including interest that was accrued where the RL Group is entitled to repay the liability before its maturity. Other financial investments are presented at their fair value as this is consistent with the values used in the liquidity risk management of these instruments. The table excludes insurance liability cash flows and reinsurance asset cash flows which are included in note 19.

	31 December 2014			
	Less than 1 year £000s	1 to 5 years £000s	Over 5 years £000s	Total £000s
Financial Assets				
Financial investments	1,058,333	2,789,071	17,141,986	20,989,390
Accrued income and prepayments	130,816	-	-	130,816
Receivables	357,733	-	-	357,733
Cash and cash equivalents	106,711	-	-	106,711
	1,653,593	**2,789,071**	**17,141,986**	**21,584,650**
Financial Liabilities				
Payables and financial liabilities	1,606,841	1,388,232	5,748,693	8,743,766
Borrowings	-	-	100,000	100,000
Deferred tax liabilities	39	3,090	300	3,429
Accruals and deferred income	33,334	-	-	33,334
	1,640,214	**1,391,322**	**5,848,993**	**8,880,529**
Net	**13,379**	**1,397,749**	**11,292,993**	**12,704,121**

	31 December 2013			
	Less than 1 year £000s	1 to 5 years £000s	Over 5 years £000s	Total £000s
Financial Assets				
Financial investments	754,283	1,531,832	9,014,734	11,300,849
Accrued income and prepayments	77,863	-	-	77,863
Receivables	70,383	-	-	70,383
Cash and cash equivalents	88,983	-	-	88,983
	991,512	**1,531,832**	**9,014,734**	**11,538,078**
Financial Liabilities				
Payables and financial liabilities	565,631	591,837	2,899,817	4,057,285
Borrowings	-	-	100,000	100,000
Deferred tax liabilities	-	2,914	-	2,914
Accruals and deferred income	5,123	3,814	10,498	19,435
	570,754	**598,565**	**3,010,315**	**4,179,634**
Net	**420,758**	**933,267**	**6,004,419**	**7,358,444**

Notes to the Financial Statements (continued)

Note 27 – Financial Risk Management (continued)

Collateralised Agreements

Assets are transferred under repurchase and securities lending agreements with other financial institutions. The nature and carrying amounts of the assets (all carried at fair value) subject to repurchase and securities lending.

	31 December 2014		31 December 2013	
	Asset £000s	Related Liability £000s	Asset £000s	Related Liability £000s
Government and agency obligations	2,273,450	1,973,732	496,746	480,190
Corporate debt	56,092	48,698	1,181,310	800,879
	2,329,542	2,022,430	1,678,056	1,281,069

As the substance of these transactions is secured borrowings and repurchase agreements the asset collateral continues to be recognised in full and the related liability reflecting the RL Group's obligations to repurchase the transferred assets at a future date is recognised in other liabilities. The RL Group remains exposed to interest rate risk and credit risk on these pledged instruments. The counterparty's recourse is not limited to the transferred assets.

The net exposures to certain OTC derivatives are collateralised through cash. As at 31st December 2014, the total cash collateral received was £1,105.5m (2013: £264.3m). Other OTC contracts are collateralised with fixed income securities which are not recognised on the balance sheet of the RL Group.

Note 28 – Capital Management

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

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

As at 31st December 2014 the RL Group had sufficient capital available to meet its regulatory capital requirements. The RL Group holds both debt and equity to optimise its capital structure and improve shareholder return.

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

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

The capital held within the shareholders' fund is generally available to meet any requirements. It remains the intention of management to ensure that there is adequate capital to exceed the RL Group's regulatory requirements.

Notes to the Financial Statements (continued)

Note 28 – Capital Management (continued)

Total available capital resources at 31st December 2014 are £970.9m (2013: £654.1m) of which:

At 31 December 2014	**Long Term Fund £000s**	**Shareholder's Funds £000s**	**Total £000s**
Shareholders' funds outside long term fund	-	385,715	385,715
Shareholders' funds held in long term fund	328,162	-	328,162
Total shareholders' funds	328,162	385,715	713,877
Adjustments onto regulatory basis	(241,991)	498,984	256,993
Total Available Capital Resources	**86,171**	**884,699**	**970,870**

At 31 December 2013	**Long Term Fund £000s**	**Shareholder's Funds £000s**	**Total £000s**
Shareholders' funds outside long term fund	-	277,785	277,785
Shareholders' funds held in long term fund	291,678	-	291,678
Total shareholders' funds	291,678	277,785	569,463
Adjustments onto regulatory basis	7,862	76,803	84,665
Total Available Capital Resources	**299,540**	**354,588**	**654,128**

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

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

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

At 31st December 2014 the IGD cover was 204% (2013: 229%) of the capital requirement of £477.1m (2013: £285.5m).

Notes to the Financial Statements (continued)

Note 28 – Capital Management (continued)

Movements in Capital Resources

	31 December 2014 £000s	31 December 2013 £000s
Opening Balance	**654,128**	**790,004**
New business	60,800	56,745
Acquisition of RAL	210,203	-
Management of in force book	50,836	150,878
Expenses	(46,521)	(39,729)
Demographic experience variance	11,739	10,200
Other	(7,633)	(791)
Operating Surplus	**933,552**	**967,307**
Economic profits	(610)	13,200
Non recurring expenses	(14,800)	(247)
Finance costs	(6,443)	(4,999)
Tax	(57,084)	(40,133)
Repayment of capital instrument	-	(132,500)
Issue of ordinary share	116,255	132,500
Dividend payment	-	(281,000)
Closing Balance	**970,870**	**654,128**

Capital Resource Sensitivities

The capital position is sensitive to changes in market conditions, due to changes in the value of the assets and the effect that changes in investment conditions may have on the value of the liabilities. The RL Group seeks to mitigate these risks through the use of derivative hedges and reinsurance. Management monitor these assumptions and market conditions and would take appropriate action if relevant.

Notes to the Financial Statements (continued)

Note 28 – Capital Management (continued)

Capital Resource Sensitivities (continued)

The RL Group is exposed to changes in market conditions but controls its exposure to the various elements of this risk as follows:

- **Interest and Inflation Rates Risk:** A portfolio of interest and inflation swaps is structured such that each basis point movement in interest rates or inflation will change the value of assets and liabilities by a similar amount.

- **Credit Risk:** As well as holding government bonds, government guaranteed bonds, supranational bonds and regulated covered bonds, the RL Group also holds corporate bonds with matching collateralised credit default swaps or total return swaps. Given this approach, the RL Group therefore has a reduced risk of reductions in regulatory capital resources caused by defaults on bonds. During 2014 the RL Group has continued to increase its exposure to other assets including social housing and infrastructure assets. The RL Group bears minimal credit risk under these arrangements unless the cash advanced to the counterparty exceeds the value of the collateral received.

- **Currency Risk:** The Company holds some Euro and US Dollar denominated corporate bonds. All foreign currency coupon and principal receipts are swapped for sterling cash flows thereby reducing the risk of volatility in regulatory capital resources due to exchange rate movements.

Management monitors markets conditions and emerging longevity experience on a regular basis. As these conditions change, management will take remedial action such as adjustment of hedging strategies if appropriate.

Notes to the Financial Statements (continued)

Note 29 – Related Parties Disclosures

Ultimate Holding Company

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

Related Party Transactions

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

Notes to the Financial Statements (continued)

Note 29 – Related Parties Disclosures (continued)

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

	31 December 2014 £000s	31 December 2013 £000s
Statement of Comprehensive Income		
Realised/Unrealised losses on financial assets and liabilities	(563,639)	(268,706)
Interest income on bank deposits	36	50
Income from money market securities held in collective investment schemes	2,889	2,144
Interest on collateralised agreements and financing	31,786	48,388
Service fee charges	(4,161)	(15,135)
Investment expenses and charges	(7,077)	(6,159)
Statement of Financial Position		
Derivative financial assets and liabilities	(1,119,032)	(421,053)
Collateralised agreements and financing	1,440,880	1,089,779
Collective investments schemes	708,519	407,456
Accrued interest and prepayments	242	-
Amounts payable to related party	(890)	(211,146)
Dividends paid	-	(281,000)

During the year £4m (2013: £4m) of bonus payments were borne by a fellow participating interest, as part of a long term incentive arrangement. The RL Group will not be charged for this expense.

The notional amount of derivatives contracts outstanding with related parties as at 31st December 2014 was £40,964.3m (2013: £52,078.2m).

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

Notes to the Financial Statements (continued)

Note 29 – Related Parties Disclosures (continued)

Transactions with key management personnel

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

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

	31 December 2014 £000s	31 December 2013 £000s
Salaries, bonus and other employee benefits	7,800	5,125
Pension costs	151	149
	7,951	5,274

The table below represents transactions between RL and its subsidiary RAL, its parent RHUK and other group company RPML.

Transactions with Rothesay Pensions Management Limited

	31 December 2014 £000s	31December 2013 £000s
Statement of Comprehensive Income		
Cost transfer	(25,627)	(13,563)
Statement of Financial Position		
Other payables	13,090	7,078

Transactions with Rothesay Assurance Limited

	31 December 2014 £000s	31December 2013 £000s
Statement of Comprehensive Income		
Interest income on bank deposits	12	-
Investment management charges	(26)	-
Cost transfer	2,186	-
Statement of Financial Position		
Investment in subsidiary undertaking	421,381	-
Derivative financial instruments	116,223	-
Other receivables	201	-
Other payables	(120,160)	-

Notes to the Financial Statements (continued)

Note 29 – Related Parties Disclosures (continued)

Transactions with Rothesay Holdco UK Limited

	31 December 2014 £000s	31December 2013 £000s
Statement of Comprehensive Income		
Interest on collateralised agreements and financing	60	-
Cost transfer	284	-
Statement of Financial Position		
Other receivables	5,015	-
Capital	383,754	267,500

Note 30 – Subsidiary Undertakings

Subsidiary Undertakings

The Financial Statements include the Financial Statements of RLL and the subsidiary listed in the following table:

Group Undertakings	Country of Incorporation	Primary business operation	2014 % equity interest	2013 % equity interest
Rothesay Assurance Limited (Formerly known as MetLife Assurance Limited)	UK	Services Company	100%	-

The above subsidiary undertaking is registered in England and Wales.

On 16th May 2014, RLL acquired MetLife Assurance Limited, the UK bulk annuity business of MetLife Inc. MetLife Assurance Limited is now wholly owned by RLL. MetLife Assurance Limited was renamed Rothesay Assurance Limited on 23rd June 2014.

Note 31 – Financial Commitments and Contingencies

Operating lease rentals commitments arise where a Group 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:

	31 December 2014 £000s	31 December 2013 £000s
Not later than one year	420	-
Later than one year and no later than five years	3,358	-
Later than five years	3,779	-
Total Minimum Lease Payments	7,557	-

Notes to the Financial Statements (continued)

Note 31 – Financial Commitments and Contingencies (continued)

Other Commitments

During the year the RL Group executed transactions to purchase partly funded bonds. The RL Group expects to pay a further £197m within the next 5 years (2013: £123m), £nil of this being due within 12 months of the financial reporting date (2013: £25m).

	31 December 2014 £000s	31 December 2013 £000s
Not later than one year	-	25,000
Later than one year and no later than five years	197,000	49,000
Later than five years	-	49,000
Total Other Commitments	**197,000**	**123,000**

Note 32 - Post Balance Sheet Event

On 17th February 2015 LT Mortgage Financing Limited was incorporated as a wholly owned subsidiary of Rothesay Life Limited with 0.01 pence share capital.

Notes to the Financial Statements (continued)

Note 33 – International Financial Reporting Standards ('IFRS') Transition

A1.1. Accounting Policies – Basis of Preparation

For all years up to and including the year ended 31st December 2013, the RL Group prepared its Financial Statements in accordance with UK GAAP. These Financial Statements, for the year ended 31st December 2014, are the first the RL Group has prepared in accordance with IFRS.

Accordingly, the RL Group has prepared Financial Statements which comply with IFRS applicable for years beginning on or after 1st January 2014 as described in the accounting policies. In preparing these Financial Statements, the RL Group's opening Statement of Financial Position was prepared as at 1st January 2013, the RL Group's date of transition to IFRS. This note explains the principal adjustments made by the RL Group in restating its UK GAAP statement of financial position as at 1st January 2013 and its previously published UK GAAP Financial Statements for the year ended 31st December 2013. All adjustments are reclassifications of balances rather than valuation differences.

A1.2. Notes to the Financial Statements – First-Time Adoption of IFRS *IFRS 1.22, 23*

IFRS has been applied retrospectively, except for certain optional and mandatory exemptions from full retrospective application, as provided for by IFRS 1 (Revised 2009) First–Time Adoption of IFRSs, as detailed below.

Designation of Financial Assets and Financial Liabilities *IFRS 1. D19*

At the date of transition, the RL Group chose to designate according to the IFRS designation criteria, all of its existing financial assets as 'at fair value through profit or loss'.

Notes to the Financial Statements (continued)

Note 33 – IFRS Transition (continued)

Estimates

At the date of transition, the RL Group's estimates under IFRS are consistent with estimates previously made under UK GAAP.

IFRS Classification Changes

The principal classification changes at 1st January 2014 can be seen in the table below. They have no effect on equity.

1st January 2014	UK GAAP £000s	Adjustments £000s	IFRS £000s
Assets			
Other Financial investments	3,093,221	8,207,628	11,300,849
Assets held to cover linked liabilities	5,360,587	(5,360,587)	-
Reinsurers share of technical provisions	164,325	-	164,325
Accrued interest and prepayments	77,863	-	77,863
Other receivables	70,383	-	70,383
Cash at bank and in hand	88,983	-	88,983
Total Assets	**8,855,362**	**2,847,041**	**11,702,403**
Equity and Liabilities			
Share capital	155,121	-	155,121
Share premium	112,379	-	112,379
Retained earnings	301,963	-	301,963
Total Equity	**569,463**	-	**569,463**
Liabilities			
Long term business provision /Insurance contract liabilities	1,439,582	5,508,825	6,948,407
Claims outstanding	4,899	-	4,899
Technical provision for linked liabilities	5,508,825	(5,508,825)	-
Borrowings	100,000	-	100,000
Other liabilities	1,210,244	2,847,041	4,057,285
Deferred tax liabilities	2,914	-	2,914
Accruals and deferred income	19,435	-	19,435
Total Equity and Liabilities	**8,855,362**	**2,847,041**	**11,702,403**

Notes to the Financial Statements (continued)

Note 33 – IFRS Transition (continued)

IFRS Classification Changes (continued)

1st January 2014	UK GAAP £000s	Adjustments £000s	IFRS £000s
Income			
Gross premiums written	1,628,059	-	1,628,059
Premiums ceded to reinsurers	(361,208)	-	(361,208)
Net Premiums Written	**1,266,851**	-	**1,266,851**
Investment income	209,575	(309,550)	(99,975)
Total Revenue, Net of Reinsurance	**1,476,426**	**(309,550)**	**1,166,876**
Gross claims and benefits paid	(576,207)	-	(576,207)
Outward reinsurers share of claims paid	338,260	-	338,260
Change in the provision for claims outstanding	3,520	-	3,520
Claims Incurred, Net of Reinsurance	**(234,427)**	-	**(234,427)**
Gross change in long term business provision	230,661	(230,661)	-
Gross change in insurance contract liabilities	-	(624,762)	(624,762)
Reinsurers share of change in long term business provisions	(76,282)	-	(76,282)
Changes in technical provisions, net of reinsurance	(855,423)	855,423	-
Change in Other Technical Provisions, Net of Reinsurance	**(701,044)**	-	**(701,044)**
Net operating expenses	(39,976)	-	(39,976)
Finance costs	(102,343)	95,310	(7,033)
Unrealised losses on investments	(210,841)	210,841	-
Balance on Long Term Business Account Before Tax	**187,795**	**(3,399)**	**184,396**
Investment income	1,600	(1,600)	-
Finance costs	(4,999)	4,999	-
Profit on Ordinary Activities Before Tax	**184,396**	-	**184,396**
Tax on profit on ordinary activities	(41,217)	-	(41,217)
Profit on Ordinary Activities After Tax	**143,179**	-	**143,179**

Measurement Changes – Current and Deferred Tax

Under UK GAAP, provision is made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the Financial Statements and their recognition in the income tax return. Under IAS 12 *Income Taxes* deferred tax is provided for temporary differences between the tax base of an asset or liability and the carrying value for financial reporting purposes at the year end.

No comparative Financial Statements have been prepared as there are no measurement adjustments between the UK GAAP and IFRS Financial Statements. The Consolidated Statement of Financial Position as at 1st January 2013 is shown within the Consolidated Statement of Financial Position within the primary Financial Statements.

The following pages contain the parent financial statements.

Company Number. 06127279

ROTHESAY LIFE LIMITED

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2014

Strategic Report

The Directors present their Annual Report and the Financial Statements for Rothesay Life Limited, registered number 06127279, (the 'Company' or 'RLL') for the year ended 31st December 2014. Comparative information has been presented for the year ended 31st December 2013.

1. Principal Activities

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

2. Review of the Business

Corporate Organisation

RLL operates as an independent standalone business with 78 full time professionals as at 31 December 2014. RLL is the main insurance operating company within the Rothesay Life Group (the 'Group'). All the employees are employed by a related Group undertaking, Rothesay Pensions Management Limited ('RPML').

The Company was set up in 2007. In December 2013, a group reorganisation was completed which resulted in the Company becoming a wholly-owned subsidiary of a newly-formed holding company domiciled in the UK, Rothesay Holdco UK Limited ('RHUK').

The shareholdings of each ultimate shareholder in RHUK as at 31st December 2014 are outlined below:

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

Background

The Company is authorised to write long term insurance business covering the specific risks associated with its underlying clients' pension obligations, and seeks to generate stable shareholder returns whilst providing certainty and security of pension payments to policyholders.

The primary risks transferred to the Company include interest rate risk, inflation rate risk, investment risk and longevity risk. Given the long term nature of the business, mis-management of these risks could result in both greater risk-based capital requirements and increased capital volatility. Which in turn, creates uncertainty for both the level of protection afforded to policyholders as well as the long term returns realised by shareholders.

The Company believes that both policyholder and shareholder interests are aligned in the Company being managed under a significantly de-risked investment and risk management policy.

Strategic Report (continued)

2. Review of the Business (continued)

Background (continued)

This is accomplished by:

- entering into longevity reinsurance to create certainty for the future cash flow paid;
- locking in the additional returns available on long term liability matching investments; and
- mitigating credit risk through negotiating enhanced structural security, seniority and protection therefore minimising potential losses in the event of default.

Residual risks and capital position are then monitored daily so that the Company can dynamically manage its financial position in changing market conditions.

By reducing the risks inherent in the in-force portfolio, the Company is able to focus key resources and a stable surplus capital base towards insuring more pensions and pursuing new growth opportunities. This is accretive to shareholder returns and helps the business achieve greater operational economies of scale. The stability of the capital base backing the Company's in-force business also enhances the long term protection of policyholders.

Business Summary

The Company made a pre-tax profit in the year ended 31st December 2014 of £35.0m (2013: £184.4m). During 2014, the Company generated gross written premiums of £1,673.8m (2013: £1,628.1m). In addition, the Company completed the acquisition of 100% of the Ordinary Shares of MetLife Assurance Limited which was the UK bulk annuity business of MetLife Inc. and has subsequently been renamed on 23rd June 2014 as Rothesay Assurance Limited ('RAL').

The Statement of Financial Position is set out on page 15. The Company has reported total assets of £19,504.2m (2013: £11,702.4m). The increase of £7,801.8m was primarily driven by the acquisition of RAL, decrease in interest rates and new business premiums received throughout the year.

The Company now has over 178,000 underlying insured lives (2013: 117,990). RLL made payments of £635.2m to policyholders during the year (2013: £576.2m).

Business Environment

The Board and management believe that the market will continue to mature and the volumes of bulk annuity transactions completed each year will continue to rise as the benefits of risk-transfer, for pension schemes and annuity providers acquiring protection increases. Record volumes of transactions were executed during 2014 and market observers now expect annual volumes to exceed £10bn in terms of new business volume.

Strategy

RLL continues to see substantial opportunities for profitable growth in the UK bulk annuity sector, which is underpinned by key structural elements such as an ageing population and increasing desire on the part of corporate pension schemes to reduce and eliminate risks associated with their legacy defined benefit pension liabilities. All new business in the Group is expected to be written in RLL.

Strategic Report (continued)

2. Review of the Business (continued)

Strategy (continued)

The Company has a clear and well-defined strategy to grow by taking maximum advantage of the substantial opportunity in the sector, but to do so in a manner that does not compromise returns or lead to taking on unnecessary risks. The management of the Company believe that close adherence to the strategy will lead to sustainable growth and financial returns. Effective execution of our strategy requires a universal risk culture founded on discipline and responsibility. The prevalence of this culture across the firm and its impact on the quality of the balance sheet and new business origination is the strongest feature of our business model and strategy.

Develop the business through sustainable organic and inorganic growth

RLL will seek to pursue new transactions that meet our target return objectives by structuring secure and innovative solutions for our customers. The objective over the next two to three years is to grow the business to a scale such that the Company would be able to underwrite sustainable levels of new business whilst providing a return to investors through dividends.

RLL will aim to ensure it provides a very high level of security to its policyholders by sourcing profitable new business, managing assets to provide attractive risk and capital-adjusted returns and deploying a comprehensive risk and capital management framework to protect against market strains.

Service excellence

RLL has been distinguished by its quality of client service, with trustees, corporate sponsors and policyholders. RLL continues to uphold a high standard of relationship management, operational support and administration.

RLL has been resourced through hiring some of the best talent in the industry and the Company will continue to complement the internal management team with best-of-breed advisers and service providers.

Risk Management

As we have grown our business, our approach to risk management has allowed us to recycle capital which has ensured we maintain a very strong balance sheet and substantial capital surplus. This robust position enables us to protect the Company against impending regulatory changes through Solvency II as well as provide the firepower to continue to pursue both organic and strategic opportunities to grow. However, our strategy will be to remain patient and focus on value and risk.

The Company adopts a robust approach to hedging and investment which necessarily involves:

- A daily mark-to-market valuation approach (to the extent visible trading prices allow) for all assets and liabilities. For positions where direct market data is not available, models are utilised to interpolate or extrapolate to their fair value. Such models and their output are reviewed independently by the independent Risk Management Function.

- A reserving approach for un-hedged risks which aims to ensure that reserves calibrate to the market price of hedging those risks.

- A risk limit framework which ensures the stability of the earnings and solvency position of the business. Limits exist in relation to market, counterparty, demographic and longevity risks and are sized with reference to the overall RLL risk appetite and capital position.

Strategic Report (continued)

2. Review of the Business (continued)

Risk Management (continued)

Asset investment decisions are undertaken with the primary objective of aiming to ensure that the projected returns which can be generated are secure and sustainable for the term of the policyholder reserves. These assets typically seek to minimise potential losses from default through the use of physical or structural security. In some instances, credit hedging instruments are also utilised.

As at year end, the asset portfolio consisted primarily of UK sovereign bonds, tri-party repo facilities, bilateral funding facilities, social housing bonds, covered bonds and UK infrastructure debt.

Wherever possible, a market consistent reserving approach is adopted. Reserves held against un-hedged risks are calibrated to market observed bid/offer charges for hedging instruments. This enables management to dynamically risk hedge the portfolio based on early market indicators, without reducing expected investment returns.

The Company seeks to monitor and control exposure through a robust risk and control framework encompassing the management of both in-force business and new business underwriting within a holistic risk control framework:

- Close co-ordination of underwriting, reinsurance, investment and risk hedging functions ensures risk management is central to all aspects of the business, and that new business pricing reflects latest market conditions and hedging costs as well as comprehensive liability analysis.

- The integrated system infrastructure, capturing centrally all assets and liabilities, provides RLL with the capability of daily risk monitoring and reporting at both the portfolio and the individual transaction level.

- An independent risk and capital management function provides continuous monitoring of risk exposures and daily attribution of profit and loss, providing timely information to management and enabling dynamic risk based decision making.

The day-to-day risk management framework is overseen by the Working Level Risk Committee, consisting of relevant senior managers working within a delegated risk management framework. This committee reviews all material new investment, hedging or liability transactions.

The Board has overall responsibility for the management of the exposure to risks, and is supported through formal sub-committees, being the Audit Committee and the Board Risk Committee. The memberships of these committees are composed of Non-Executive and Directors. These Committees ensure that the management of the business is conducted within the delegated risk framework from the main Board.

There are a number of principal risks and uncertainties that could have a material impact on the Company's long term performance and could cause actual results to differ from expected or historical results. These are considered in more detail below.

While the Company employs a broad and diversified set of risk monitoring and risk mitigation techniques as described previously, those techniques and the judgments that accompany their application cannot anticipate every economic and financial scenario or the specifics and timing of such outcomes. Please refer to the financial risk management section in note 26 to the financial statements for additional detail.

Strategic Report (continued)

2. Review of the Business (continued)

Operational Infrastructure

Failures in internal or outsourced processes could lead to financial loss, disruption of business, liability to clients, regulatory intervention or reputational damage. The Company's financial, accounting, data processing or other operating systems and facilities and those of vendors may fail to operate properly or become disabled as a result of events that are wholly or partially beyond the Company's control, adversely affecting the Company's ability to process transactions. The Company seeks to mitigate these risks through policies such as shadow processing of third party administration processes and frequent reconciliation of policyholder records.

Despite the resiliency plans and facilities that are in place, the Company's ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports this business and the communities in which the company is located. This may include a disruption involving electrical, communication, transportation or other services facilities used by the Company or third parties with which the Company conducts business.

Principal Risks and Uncertainties

The Company faces a variety of risks that are substantial and inherent in its business including reinvestments, longevity, market, liquidity, counterparty default, operational, legal and regulatory risks. Further detail on each of these risks and how the Company manages them are provided in note 26. The following is a summary of some of the more important factors that could affect the performance of the business.

Longevity

A principal risk to which the Company is exposed is the longevity risk inherent in whole of life annuities, in particular the risk that actual life expectancy differs from that provisioned. RLL implements rigorous underwriting practices to ensure all longevity risks associated with new liabilities are appropriately evaluated.

RLL also actively manages the risk by executing reinsurance contracts which substantially match the terms of the underlying liabilities, and are collateralised to mitigate RLL's risk of counterparty exposure to the reinsurers in the event of their default.

RLL's discipline in underwriting longevity risk allows it to anticipate pricing levels of reinsurers. Regular communication around pricing levels and execution of reinsurance contracts provides current market-implied levels at which the underlying risk can be reinsured, and ensures RLL keeps up-to-date with the latest developments in the analysis and pricing of longevity risk.

Counterparty credit quality

The Company is exposed to the risk that securities or other assets may default on their obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. Deterioration in the credit quality of third parties whose securities or obligations are held by the Company could result in losses and/or adversely affect the Company's ability to use those securities or obligations for liquidity purposes.

The Company's exposure to counterparty credit risk is significantly reduced by entering into agreements that enable the Company to obtain collateral from counterparties on an upfront or contingent basis and/or by transferring the credit risk using credit derivatives. Default rates, downgrades and disputes with counterparties as to the valuation of collateral increase significantly in times of market stress and illiquidity. This risk is managed through careful negotiation of contractual rights and prudent default provisions.

Strategic Report (continued)

2. Review of the Business (continued)

Principal Risks and Uncertainties (continued)

Economic and market conditions

The Company can be materially affected by conditions in the global financial markets and economic conditions generally. Volatility in interest and inflation rates could materially affect the cost of meeting insurance obligations, but this is significantly reduced through the use of collateralised derivative hedges.

Liquidity

Liquidity is essential to the business. The Company's liquidity could be impaired by unforeseen outflows of cash or collateral. This situation may arise due to circumstances that the Company may be unable to control, such as general market disruption or an operational problem that affects third parties or the Company.

To mitigate liquidity risk the Company maintains significant surplus liquidity, comprising investments such as cash, collective investment schemes, government bonds, government guaranteed bonds, supranational bonds and regulated covered bonds. The sum of these liquid assets in aggregate is referred to as the Liquid Asset Buffer. The minimum size of the Liquid Asset Buffer is set equal to the Maximum Liquidity Outflow in extremely adverse stress scenarios. The Liquid Asset Buffer includes cash held by agent banks or in collective investment schemes, government bonds, supranational bonds and covered bonds. Financing haircuts are applied where applicable. The most adverse scenario considered at year end was a 4% increase in GBP swap interest rates of appropriate durations.

Regulatory risk

From 1st January 2016, the current solvency regime will be replaced by Solvency II. Similar to the current solvency regime, under Solvency II RLL is required to hold the greater of the capital required under the new Pillar 1 and the capital required under our own economic capital models.

As with the current solvency regime, the capital required for the Company under Pillar 1 exceeds that required under our own economic capital models.

Under Solvency II, the Company is required to hold sufficient assets under the Pillar 1 solvency test to meet:

- The liabilities of the Company calculated on a best estimate basis (the 'BEL');
- The cost of transferring non-hedgeable risks (known as the risk margin); and
- 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').

Matching adjustment: For most insurance business, the BEL must be discounted using a prescribed risk free discount rate. However firms with illiquid liabilities such as annuity business can apply to discount these illiquid liabilities using the risk free rate plus what is known as the 'matching adjustment'. The matching adjustment is broadly equivalent to the liquidity premium that can be earned on the illiquid assets held to back illiquid liabilities.

Strategic Report (continued)

2. Review of the Business (continued)

Principal Risks and Uncertainties (continued)

Regulatory risk (continued)

The Company has participated in the matching adjustment pre-application process and intends to apply to use the matching adjustment for majority of the business. The Company believes it is in a good position to obtain approval to use the matching adjustment approval because the Company already closely matches assets and liabilities and its investment strategy is consistent with the buy and hold requirements of Solvency II.

In order to use the matching adjustment, from 1st January 2016 the Company will be required to operate two separate funds within each life company – a matching adjustment fund and a non-matching adjustment fund. The matching adjustment fund will hold all of the single premium insurance business and sufficient qualifying assets to meet the associated BEL and risk margin. Regular premium business and all the remaining assets will be held in the non-matching adjustment fund.

Partial internal model: Under Solvency II, insurers have the option of calculating the SCR either using the prescribed basis (the 'standard formula') or applying to use its own internal model. The Company is in the process of applying to use its own model for calculating the SCR in relation to credit risk but intends using the standard formula for all other risks, the Company is intending to use what is known as a partial internal model.

The Company is applying to use a partial internal model because the capital requirements under the standard formula for credit spread risk depend on a somewhat arbitrary classification of structured investments and rely on public credit ratings. Little relief is applied under Solvency II to unrated assets with strong security, collateral or other structural protection of the type in which the Company has specialised. Such assets are fundamental to the low risk business model, strong solvency and stable balance sheet position and hence the Company has developed a partial internal model which makes proper allowance for underlying security protection.

Results: As there remains uncertainty about when RLL will obtain the relevant approvals and around some of the specific details and interpretation of the Solvency II regulations, the Company has decided not to publish solvency estimates in this report. Assuming that the Company receives the relevant approvals, it is expected that the estimated impact of Solvency II will be relatively neutral from a capital perspective as the capital required under Solvency II is similar to that required under Pillar 1 of the current solvency regime. However the risk remains that more capital is required under Solvency II than under the current regime.

Contingency plans and transitional solvency relief: The Company's implementation programme is progressing well but the Company has developed contingency plans to address the situation that it does not receive the necessary approvals by 1st January 2016. Like most annuity providers, the Company's capital position under Solvency II is critically dependent on approval to use the matching adjustment. The Company is less dependent on approval to use a partial internal model but a delay in receiving approval would still have a negative impact on capital.

The dynamic and focussed approach of the business means that the Company will be able to rapidly address any issues raised by the PRA in relation to approvals. In addition, the Company will apply to use transitional solvency relief which will allow us to phase in the impact of Solvency II on our capital position over sixteen years.

Reinvestment Risk

The Company may elect to invest in assets which have a term shorter than the term of our liabilities. As such, there is some reinvestment risk on the asset portfolio that returns and yields achievable once the assets mature may be lower than those targeted. However, the Company adopts a very prudent reinvestment rate assumption and also is very well-matched from the duration of assets and liabilities perspective to mitigate this risk.

Strategic Report (continued)

2. Review of the Business (continued)

Key Performance Indicators

During the year, the Board frequently monitored the progress of the Company by reference to a range of key performance indicators which are deemed to be appropriate and relevant for the Company at its current point of development. These include:

	31 December 2014	31 December 2013
	£000s	£000s
IFRS profit before tax	34,980	184,396
Economic capital	1,689	1,065
Economic capital coverage	209%	174%
New business premiums	1,396,526	1,373,326
Financial assets	18,338,666	11,300,849

Profits in 2013 were higher than in 2014 because they included the impact of investing some of the assets received as premiums during 2012. Similarly profits in 2014 were slightly depressed by lack of deployment of new business premiums received late in the year.

Financial assets increased from £11,300.8m to £18,338.7m as at 31st December 2014 mainly as a result of new business and the fall in interest rates.

Over time, as the business continues to grow, management will determine whether the current measures need to be supplemented with further key performance indicators.

Future Outlook

The Directors consider that the year end financial position of the Company was satisfactory and no significant change in the Company's principal business activity is expected. The Directors expect additional growth through potential acquisition opportunities. The Company has already established a precedent through the successful integration of the Paternoster business in January 2011 and MetLife Assurance Limited in May 2014. The Company will look at further opportunities in the sector.

3. Date of authorisation of issue

The financial statements were authorised for issue by the Board of Directors on 25th March 2015.

ON BEHALF OF THE BOARD

Addy Loudiadis
Chief Executive Officer
25 March 2015

Report of the Directors

The Directors present their Annual Report for the year ended 31st December 2014.

1. Post Balance Sheet Events

On 25th March 2015, the Directors of RAL recommended the payment of an interim dividend to the Company of £180m in relation to the year ending 31st December 2015.

2. Results

The Company's results for the year are set out in the Statement of Comprehensive Income on page 14.

3. Dividends

The Directors recommended no payment of interim dividends during the year ended 31st December 2014 (2013: £281m). The Directors recommended no final ordinary dividend in respect of the year (2013: £nil). Please refer to Note 24 to the Financial Statements for additional detail.

4. Directors

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

Name	Appointed	Resigned
S. Q. Abbas	18 March 2014	
T. J. Breedon	18 March 2014	14 May 2014
R. A. De Beir Jarratt	18 March 2014	
R. King	10 November 2014	
A. Loudiadis		
D. McDonogh		
D. G. Paterson		
C. Pickup		
K. Satchell		

Three non-executive Directors have been appointed to the Board subject to PRA and FCA approval.

5. Qualifying Third Party Indemnities

The Articles of Association of the Company provide for the Directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office. The Company also provides certain protections for Company Directors and senior management against personnel financial exposure that they may have incurred in their capacity as such. These include qualifying third party indemnity provisions (as defined under section 234 of the Companies Act 2006) in force for the benefit of the Directors of the Company during the year.

6. Going Concern Statement

The Directors are satisfied that the Company has adequate resources to continue in business and to meet their obligations for the foreseeable future. The Financial Statements have therefore been prepared on a going concern basis.

Report of the Directors (continued)

7. Transition to International Financial Reporting Standards ('IFRS')

The Financial Statements of the Company have been prepared and approved by the Directors in accordance with IFRS as adopted by the European Union ('EU') and those parts of the Companies Act 2006 applicable to those reporting under IFRS. For all periods up to and including the year ended 31st December 2013, the Company prepared its Financial Statements in accordance with UK Generally Accepted Accounting Practice ('UK GAAP'). These Financial Statements for the year ended 31st December 2014 are the first the Company has prepared in accordance with IFRS. In preparing these Financial Statements the Company's opening Statement of Financial Position was prepared as at 1st January 2013, the Company's date of transition to IFRS. See Note 32 for information on how the Company adopted IFRS.

8. Disclosure of Information to Auditors

In the case of each of the persons who are Directors of the Company at the date when this report was approved:

- so far as each of the Directors are aware, there is no information relevant to the audit of which the Company's auditors are unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any information relevant to the audit and to establish that the Company's auditors are aware of that information.

9. Independent Auditors

The Company has passed Elective Resolutions in accordance with the Companies Act 1985 to dispense with the holding of annual general meetings, the laying of Financial Statements before general meetings and the annual reappointment of auditors. PricewaterhouseCoopers LLP will, accordingly, continue in office as auditors of the Company pursuant to Section 487(2) of the Companies Act 2006 and paragraph 44 of Schedule 3 to the Companies Act 2006 (Commencement No. 3 Consequential Amendment, Transitional Provisions and Savings) Order 2007.

10. Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, Report of the Directors and the Financial Statements in accordance with applicable laws and regulations. Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Financial Statements in accordance with IFRSs as adopted by the EU. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Report of the Directors (continued)

10. Statement of Directors' Responsibilities (continued)

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

11. Date of Authorisation of Issue

The Financial Statements were authorised for issue by the Board of Directors on 25th March 2015.

ON BEHALF OF THE BOARD

Addy Loudiadis
Chief Executive Officer
25 March 2015

Independent Auditors' report to the members of ROTHESAY LIFE LIMITED

Report on the Financial Statements

Our Opinion

In our opinion, Rothesay Life Limited's Financial Statements (the 'Financial Statements'):

- give a true and fair view of the state of the Company's affairs as at 31st December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Rothesay Life Limited's Financial Statements comprise:

- the Statement of Financial Position as at 31st December 2014;
- the Statement of Comprehensive Income for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation of the Financial Statements is applicable law and IFRSs as adopted by the EU.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on Other Matters Prescribed by the Companies House Act 2006

In our opinion the information given in the Strategic Report and the Report of the Directors for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Other Matters on which we are required to Report by Exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the Financial Statements and the Audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 10-11, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

Independent Auditors' report to the members of ROTHESAY LIFE LIMITED (continued)

Our responsibilities and those of the Directors (continued)

Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of Financial Statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the Financial Statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Financial Statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Report of the Directors and Financial Statements to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Nick Wilks

Nick Wilks (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25th March 2015

Statement of Comprehensive Income

For the year ended 31st December 2014	Note	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Income			
Gross premiums written	2	1,673,814	1,628,059
Premiums ceded to reinsurers		(385,810)	(361,208)
Net Premiums Written		1,288,004	1,266,851
Investment return	9	1,399,349	(99,975)
Total Revenue		2,687,353	1,166,876
Expenses			
Claims and change in insurance contract liabilities		(3,022,962)	(1,197,449)
Change in the reinsurers'share of insurance contract liabilities		432,002	261,978
Net Claims Incurred and Change in Insurance Contract Liabilities	3	(2,590,960)	(935,471)
Operating expenses	4	(55,188)	(39,976)
Finance costs	5	(6,225)	(7,033)
Total Operating Expenses		(61,413)	(47,009)
Profit Before Tax		34,980	184,396
Income tax expense	8	(6,821)	(41,217)
Profit for the Year		28,159	143,179

All income and expenses relate to continuing operations.

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

Notes 1 – 32 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31st December 2014	Note	31 December 2014 £000s	31 December 2013 £000s	As at 1 January 2013 £000s
Assets				
Investment in subsidiary undertaking	29	421,381	-	-
Property, plant and equipment	11	1,524	-	-
Financial investments	12	18,338,666	11,300,849	9,146,260
Reinsurance assets	19	234,052	164,325	240,607
Deferred tax assets	15	-	-	827
Accrued interest and prepayments	16	95,588	77,863	70,383
Receivables	14	326,364	70,383	91,797
Cash and cash equivalents	17	86,631	88,983	54,455
Total Assets		19,504,206	11,702,403	9,604,329
Equity and Liabilities				
Share capital	22	183,901	155,121	135,000
Share premium	23	199,854	112,379	-
Retained earnings	23	330,122	301,963	439,784
Total Equity		713,877	569,463	574,784
Liabilities				
Insurance contract liabilities	18	9,341,887	6,953,306	6,332,064
Payables and financial liabilities	20	9,314,452	4,057,285	2,475,695
Borrowings	21	100,000	100,000	205,000
Deferred tax liabilities	15	2,690	2,914	-
Accruals and deferred income		31,300	19,435	16,786
Total Equity and Liabilities		19,504,206	11,702,403	9,604,329

Please see Note 32 for further details of the IFRS transition and the balance sheet as at 1st January 2014.

Notes 1 – 32 form an integral part of these Financial Statements.

The Financial Statements were approved by the Board of Directors on 25th March 2015 and signed on its behalf by:

Addy Loudiadis.

Chief Executive Officer

Company number 06127279

Statement of Changes in Equity

For the year ended 31st December 2014

	Share Capital	Share Premium	Retained Earnings	Total Equity
	£000s	£000s	£000s	£000s
As at 1 January 2014	155,121	112,379	301,963	569,463
Profit for the year	-	-	28,159	28,159
Shares issued	28,780	87,475	-	116,255
As at 31 December 2014	**183,901**	**199,854**	**330,122**	**713,877**

For the year ended 31st December 2013

	Share Capital	Share Premium	Retained Earnings	Total Equity
	£000s	£000s	£000s	£000s
As at 1 January 2013	135,000	-	439,784	574,784
Profit for the year	-	-	143,179	143,179
Dividends paid on ordinary shares	-	-	(281,000)	(281,000)
Shares issued	20,121	112,379	-	132,500
As at 31 December 2013	**155,121**	**112,379**	**301,963**	**569,463**

Cash Flow Statement

	Note	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Cash Flows from Operating Activities			
Profit for the year		28,159	143,179
Adjustments for Non Cash Movements in Net Profit for the Year			
Interest income		(214,587)	(168,866)
Interest expense		6,225	7,033
Tax expense		6,821	41,217
Net Decrease/(Increase) in Operational Assets			
Financial investments		(7,037,817)	(2,154,589)
Reinsurance asset		(69,727)	76,282
Receivables		(255,239)	21,414
Net Increase in Operational Liabilities			
Insurance contract		2,388,581	621,242
payables		571,653	266,242
Financial liabilities		4,715,458	1,280,527
Accruals		9,733	1,883
Cash generated in Operations		149,260	135,564
Interest paid		(4,092)	(6,268)
Interest received		196,862	161,411
Tax paid		(37,732)	(2,679)
Net Cash Inflow from Operating Activities		304,298	288,028
Cash Flows from Financing Activities			
Repayment of borrowings		-	(105,000)
Proceeds from issue of ordinary share capital (including share premium)		116,255	132,500
Dividends paid		-	(281,000)
Net Cash Inflows/(Outflows) from Financing Activities		116,255	(253,500)
Cash Flows from Investing Activities			
Net acquisition of plant, equipment and intangibles		(1,524)	-
Acquisitions of subsidiaries		(421,381)	-
Net Cash Flows from Investing Activities		(422,905)	-
Net (decrease)/increase in cash and cash equivalents		(2,352)	34,528
Cash at bank and in hand at 1 January		88,983	54,455
Cash and Cash Equivalents at 31 December	17	86,631	88,983

Notes to the Financial Statements

Note 1 – Accounting Policies

(a) General Information

RLL is a registered Company incorporated in the United Kingdom. The Company's registered office and principal place of business is Level 25, The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB.

(b) Basis of Preparation

The Financial Statements and those of the Company have been prepared and approved by the Directors in accordance with IFRS as adopted by the EU and those parts of the Companies Act 2006 applicable to those reporting under IFRS. The Financial Statements have been prepared on a going concern basis as disclosed within Note 6 of the Report of the Directors.

For all periods up to and including the year ended 31st December 2013, the Company prepared its Financial Statements in accordance with UK GAAP. These Financial Statements for the year ended 31st December 2014 are the first the Company has prepared in accordance with IFRS. Accordingly, the Company has prepared Financial Statements which comply with IFRS applicable for periods beginning on or after 1st January 2014 as described in the accounting policies below. In preparing these Financial Statements the Company's opening Statement of Financial Position was prepared as at 1st January 2013, the Company's date of transition to IFRS. See Note 32 for information on how the Company adopted IFRS.

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

The Company presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement more than twelve months after the year end is presented in the notes.

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

(i) Adoption of New or Amended Standards

The Company has adopted the following new standards and changes to existing standards which are relevant to the Company's operations, and became effective for financial years beginning on or after 1st January 2014:

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a new definition of 'control' to be applied when determining which entities must be consolidated. This definition is based on the concept of power, exposure or rights to variable returns and their linkage. This differs from the current definition in IAS 27 which is based on the power to determine financial and operating policies. The standard has no material impact on the Company's profit before tax for the year or equity. The standard has been endorsed by the EU.

IFRS 11 Joint Arrangements

IFRS 11 defines two types of joint arrangements – joint ventures and joint operations – based on how rights and obligations are shared by parties to the arrangements. The standard sets out the required accounting treatment for each type of joint arrangement. The standard has no material impact on the Company's Profit before Tax for the year or equity. The standard has been endorsed by the EU.

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 requires additional disclosure for investments in subsidiaries, joint arrangements, associates and structured entities. The standard has had an impact on the level of disclosure in respect of un-consolidated structured entities. The standard has been endorsed by the EU.

Notes to the Financial Statements (continued)

Note 1 – Accounting Policies (continued)

(b) Basis of Preparation (continued)

(i) Adoption of New or Amended Standards (continued)

IAS 27 Separate Financial Statements

IAS27 removes requirements superseded by IFRS 10. The standard has been endorsed by the EU.

IAS 28 Associates and Joint Ventures

This amendment brings joint ventures into the scope of IAS 28 and to require equity accounting for these entities. The amendment has no material impact on the Company's profit before tax for the year or equity. The amendment has been endorsed by the EU.

IAS 32 Financial Instruments – Presentation

This amendment clarifies the requirements for offsetting financial assets and financial liabilities on the Statement of Financial Position. The amendment has no material impact on the Company Financial Statements. The amendment has been endorsed by the EU.

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

This amendment reduces the circumstances in which the recoverable amount of assets is required to be disclosed and clarification and amendments to the disclosures required. The amendment has no material impact on the Company's Profit before Tax for the year or equity. The amendment has been endorsed by the EU.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

This amendment clarifies the circumstances in which hedge accounting can be continued if derivatives are novated, to facilitate the novation of derivatives to a central counterparty. The amendment has no material impact on the Company's Profit before Tax for the year or equity. The amendment has been endorsed by the EU.

(ii) New or Revised Standards Not Yet Effective

The following new or revised standards, in issue, were not yet effective, or in some cases not yet endorsed by the EU. The Company has not early adopted any of these standards.

IFRS 9 Financial Instruments

IFRS 9, as issued in November 2009 and October 2010, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of Financial Assets and Financial Liabilities respectively, as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1st January 2013, but amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1st January 2015.

Notes to the Financial Statements (continued)

Note 1 – Accounting Policies (continued)

(b) Basis of Preparation (continued)

(ii) New or Revised Standards Not Yet Effective (continued)

In November 2013, the IASB issued a new version of IFRS 9 (IFRS 9(2013)), which includes the hedge accounting requirements. IFRS 9 (2013) does not yet have a mandatory effective date, but entities may elect to early apply only the accounting requirements for gains and losses from own credit risk without applying the other requirements of IFRS 9 (2013) at the same time. These provisions require an entity to present in Other Comprehensive Income ('OCI'), the changes in the fair value of non-derivative financial liabilities designated at fair value through profit or loss that are attributable to the Company's own credit risk.

Previous versions of IFRS 9 (2009 and 2010) will be available for early application until all of the phases of IFRS 9 have been issued. A mandatory effective date will be set when the IASB completes the impairment phase of the project. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's Financial Assets, but will not have an impact on classification and measurements of the Company's financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

(iii) Annual Improvements 2010-2012 Cycle

These improvements are effective from 1st July 2014 and are not expected to have a material impact on the Company. They include: IFRS 2 Share based Payments, IFRS 3 Business combinations, IFRS 8 Operating Segments, IAS 16 Property, Plant and Equipment, IAS 38 Intangible Assets and IFRS 24 Related Party Disclosures.

(iv) Annual Improvements 2011-2013 Cycle

These improvements are effective from 1st July 2014 and are not expected to have a material impact on the Company. They include: IFRS 3 Business Combinations, IFRS 13 Fair Value Measurement, IAS 40 Investment Property, IFRS 15 Revenue from Contracts with customers, Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisition of Interests, Amendments to IAS 16 and IAS 38: Clarification of Acceptable methods of depreciation and amortisation.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, as issued in May 2014, establishes a new five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue or industry. The principles in IFRS 15 provides a more structured approach to measuring and recognising revenue and will be applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the Company satisfies a performance obligation

Notes to the Financial Statements (continued)

Note 1 – Accounting Policies (continued)

(b) Basis of Preparation (continued)

(iv) Annual Improvements 2011-2013 Cycle (continued)

This new revenue standard, which is jointly issued by IASB and the United States Financial Accounting Standards Board (FASB), is applicable to all companies and will supersede the current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1st January 2017, but early adoption is permitted under IFRS. As the standard was recently issued, the Company is still currently assessing the impact.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1st January 2016, with early adoption permitted. This amendment is not expected to have any impact to the Company.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1st January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

(c) Basis of Consolidation

The Company is a subsidiary undertaking of a company incorporated in the UK and has elected not to prepare consolidated Financial Statements as permitted by section 402 of the Companies Act 2006.

(d) Investment in Subsidiary

Investments in subsidiary undertakings are stated at cost less provision for impairment in the Financial Statements.

(e) Contract Classification

The Company has classified all its policyholder contracts as insurance contracts in accordance with IFRS 4 Insurance Contracts. Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract.

As permitted by IFRS 4 Insurance Contracts, the assets and liabilities of the Company's insurance contracts are accounted for using generally accepted accounting principles within the industry. The Company applies the modified statutory solvency basis ('MSSB') of reporting as set out in the revised Statement of Recommended Practise (SORP) issued by the Association of British Insurers (ABI) in November 2005 (amended in December 2006).

Notes to the Financial Statements (continued)

Note 1 – Accounting Policies (continued)

(e) Contract Classification (continued)

i) Premiums

The Company writes both single and regular premium business. Single and regular premiums are recognised when they fall due and in accordance with the substance of the underlying contractual agreement.

ii) Claims

Annuity payments are accounted for when they fall due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the long term business provision. Death claims and all other claims are accounted for when notified.

iii) Insurance Contract Liabilities

Insurance contract liabilities are determined by the Company's Directors using methods and assumptions recommended by the actuarial function holder of RLL and using recognised actuarial methods with due regard to the actuarial principles laid down in Directive 2002/83/EC. They are calculated using the statutory solvency basis required to comply with the reporting requirements under the Financial Services and Markets Act 2000 and in accordance with the SORP on Accounting for Insurance Business issued by the ABI in December 2005 and revised in December 2006. The Company seeks to make prudent assumptions relating to expected future experience based on current market conditions and recent experience. The assumptions used incorporate prudent margins to reflect the inherent uncertainty that actual experience may be less favourable than would otherwise be assumed.

Insurance Contract Liabilities have been determined using the gross premium method of valuation. They are calculated as the discounted value of projected future claim payments (as determined by reference to the contractual arrangements with the insured schemes at an individual member level) adjusted for future administration costs and investment expenses determined using prudent assumptions less the present value of future premiums (a schedule of agreed, guaranteed payments) received under the longevity swap arrangements. Projected future claim payments allow for the effects of mortality. Further details of valuation assumptions are produced in Note 18. The administration costs are reflective of recent costs and expenses budgeted for the future.

In accordance with PRA valuation regulations set out in the Prudential Sourcebook for Insurers, the Company recognises negative mathematical reserves on its regular premium longevity risk transfer arrangements subject to the PRA's restrictions on the level of such reserves.

(f) Acquisition Costs

The costs of acquiring new business are expensed during the financial year in which they are incurred.

Notes to the Financial Statements (continued)

(g) Reinsurance

Long term business is ceded to reinsurers under contracts to transfer part or the insurance risk associated with the underlying insurance contracts. Such contracts are accounted for as insurance contracts provided the risk transfer is significant.

The amounts that will be recoverable from reinsurers is estimated based upon the gross provisions, having due regard to collectability. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of the reinsurance company. The reinsurers' share of claims paid, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of claims paid or incurred during the year. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the Statement of Comprehensive Income as 'Premiums Ceded to Reinsurers' when due.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently when an indication of impairment arises during the financial reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the Reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Any impairment loss is recorded in the Statement of Comprehensive Income.

(h) Investment Income

Investment income comprises all Investment income, realised investment gains and losses and movements in unrealised gains and losses.

Dividends on money market securities held in collective investment schemes are included as investment income on the date the units are created. Interest is accounted for on an accruals basis.

Realised gains and losses on investments carried at fair value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the fair value at the Statement of Financial Position date and their purchase price.

(i) Finance Costs

Finance costs comprise finance costs and interest payable on financial liabilities. Expenses are accounted for on an accruals basis.

(j) Operating Leases

A lease is classified as an operating lease if it does not transfer substantially all the risk and rewards incidental to ownership.

Payments made under operating leases, net of any investments received from the lessor, are charged to profit and loss on a straight line basis over the term of the lease. When the lease includes a rent free period, the lessee recognises the aggregate benefit of the incentive as a reduction of rental expense over the lease term on a systematic basis.

(k) Property, Plant and Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight basis over the useful life of the following classes of assets:

Computer Equipment: 3 years

Furniture and Fittings: 5 years

Notes to the Financial Statements (continued)

Note 1 – Accounting Policies (continued)

(l) Financial Investments

Financial Investments are classified, at initial recognition, as financial investments at fair value through profit or loss, with the exception of receivables, cash, and prepayments and accrued interest which are carried at amortised cost.

Financial Investments at Fair Value Through Profit and Loss

Financial investments at fair value through profit or loss are both financial investments held for trading and financial investments designated upon initial recognition at fair value. Financial investments at fair value through profit or loss are carried in the Statement of Financial Position at fair value with net changes in fair value presented in investment income. Financial investments include collective investment schemes, government and agency obligations, derivative assets, corporate debt, and collateralised agreements and financing.

Derecognition

A financial investment (or, where applicable, a part of a financial investment or part of a company of similar financial investments) is primarily derecognised (i.e. removed from the Company's Statement of Financial Position) when:

- The rights to receive cash flows from the investment have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the investment.

When the Company has transferred its rights to receive cash flows from an investment or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the investment, nor transferred control of the investment, the Company continues to recognise the transferred investment to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred investment and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Notes to the Financial Statements (continued)

Note 1 – Accounting Policies (continued)

(m) Collateralised Agreements and Financing

Collateralised agreements (securities purchased under agreements to resell and deposits placed as collateral for stock borrowed) and collateralised financing (securities sold under agreements to repurchase and deposits received as collateral for stock loans) are treated as collateralised financing transactions and are carried at fair value through profit and loss under the fair value option. The collateral can be in the form of cash or securities. Cash collateral is recognised/derecognised when received/paid. Collateral posted by the Company in the form of securities is not derecognised from the Statement of Financial Position, whilst collateral received in the form of securities is not recognised on the Statement of Financial Position. If collateral received is subsequently sold, the obligation to return the collateral and the cash received are recognised in the Statement of Financial Position.

(n) Fair Value

The fair value of a financial instrument is the 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, i.e. the exit price. Financial investments are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. Fair value gains or losses are included in investment income.

The best evidence of fair value is a quoted price in an active market. If listed prices or quotations are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets, or internally developed models that primarily use, as inputs, market based or independently sourced parameters, including but not limited to interest rates, volatilities, equity or debt prices, foreign exchange rates, credit curves and funding rates. The fair value of certain financial investments and financial liabilities require valuation adjustments for counterparty credit quality, funding risk, transfer restrictions, illiquidity and bid/offer inputs.

Cash instruments such as corporate debt securities, covered bonds, government and agency obligations and certain money market instruments are valued by verifying to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g. indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources. Valuation adjustments are typically made (i) if the cash instrument is subject to regulatory or contractual transfer restrictions and/or (ii) for other premiums and discounts that a market participant would require to arrive at fair value. Valuation adjustments are generally based on market evidence.

Certain cash instruments, including collateralised agreements and financing have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, these instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. When a pricing model is used, the model is adjusted so that the model value of the cash instrument at inception equals the transaction price. Subsequently, the Company uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realised on sales.

The Company's derivative contracts consist primary of over the counter ('OTC') derivatives. OTC derivatives are generally valued using market transactions and other market evidence, including market based inputs to models, calibration to market clearing transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g. indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Where models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of and specific risks inherent in the instrument, as well as the availability of pricing information in the market. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, model selection does not involve significant management judgement because outputs of models can be calibrated to market clearing levels.

Notes to the Financial Statements (continued)

Note 1 – Accounting Policies (continued)

(n) Fair Value (continued)

Certain OTC derivatives are valued using models which utilise inputs that can be observed in the market, as well as unobservable inputs. Unobservable inputs typically include certain correlations as well as credit spreads, that are long dated or derived from trading activity in inactive or less liquid markets. Subsequent to the initial valuation of such derivatives, the Company updates the observable inputs to reflect observable market changes. Unobservable inputs are changed when corroborated by evidence such as similar market transactions, third party pricing services and/or broker or dealer quotations or other empirical market data. In circumstances where the Company cannot verify the model value by reference to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

(o) Taxation

Current Income Tax

Income tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, or paid to or recovered from other group companies in respect of group relief surrendered or received. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the financial statement date. .

Deferred Income Tax

Deferred income tax is provided using the liability method on temporary differences at the financial statement date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax and liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss, and

- In respect of taxable temporary differences associated with investments in subsidiary undertakings, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which to offset them except:

- When the Deferred Income Tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss or the taxable profit or loss; and

- The carrying amount of Deferred Income Tax assets is reviewed at each financial reporting date and that reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each financial reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the financial reporting date.

Notes to the Financial Statements (continued)

Note 1 – Accounting Policies (continued)

(o) Taxation (continued)

Deferred income tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income tax relates to the same taxable entity and the same taxation authority.

(p) Foreign Currencies

Transactions denominated in foreign currencies are translated into sterling at rates of exchange ruling on the date the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the Statement of Financial Position date. Gains and losses on exchange are recognised in operating expenses.

(q) Dividends

Final dividends are recognised in the year that they are approved by the shareholders. Interim dividends are recognised in the year that they are paid. These dividends are debited directly to equity.

Note 2 – Segmental Analysis

All of the Company's business risks and returns are within one business segment (i.e. long term insurance business). The Company'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 disclosed below:

	Regular premiums		Single premiums	
	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2014	Year ended 31 December 2013
	£000s	£000s	£000s	£000s
Company pension bulk annuities	273,567	255,224	1,400,247	1,372,835
Total Gross Premiums Written	273,567	255,224	1,400,247	1,372,835

During 2014 premiums from four bulk annuity customers each made up more than 10% of the Company's total gross written premium (2013:four bulk annuity customers), generating premiums of £1,109.7m (2013:£1,371.9m).

Notes to the Financial Statements (continued)

Note 3 – Net Claims and Change in Insurance Contract Liabilities

	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Claims Paid		
Gross claims paid	(635,245)	(576,207)
Reinsurance recoveries	362,029	338,260
Change in the provision for claims outstanding	680	3,520
	(272,536)	(234,427)
Change in Insurance Contract Liabilities		
Gross change in Insurance contract liabilities	(2,388,397)	(624,762)
Reinsurance recoveries	69,973	(76,282)
	(2,318,424)	(701,044)
Net Claims and Change in Insurance Contract Liabilities	(2,590,960)	(935,471)

Note 4 – Operating Expenses

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

	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Acquisition costs	37,960	36,216
Administration expenses - recurring	8,153	3,514
Administration expenses - project other	9,075	246
	55,188	39,976

The following items have been included in operating expenses:	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Operating lease rental expense for office premises	420	-

Notes to the Financial Statements (continued)

Note 5 – Finance Costs

	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Interest payable on collateral	1,295	676
Interest payable on overnight loans	21	66
Interest payable on borrowings from participating interest	-	1,292
Interest payable on borrowings from affiliates	4,909	4,999
Net Finance Costs	**6,225**	**7,033**

Note 6 – Employee Information

All person's involved in the Company's operations are employed by a group undertaking, RPML. The charges made by RPML for all the services provided (personnel and other) to the Company are included in the management fees charged by group undertakings.

	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Directors' Remuneration		
Aggregate emoluments	1,070	639
Company pension contributions to money purchase schemes	5	4
	1,075	**643**
Highest Paid Director		
Total amount of emoluments	841	471
Company pension contributions to money purchase schemes	5	3
	846	**474**

In accordance with the Companies Act 2006, Directors' emoluments above represent the proportion of total emoluments paid or payable in respect of qualifying services. This total does not include the value of equity awards in accordance with the provisions of Schedule 5 of SI 2008/410.

During 2013 Directors' also received emoluments for non-qualifying services which were not required to be disclosed.

No Directors have been granted shares in respect of long term incentive schemes. No Directors have exercised options during the year.

Notes to the Financial Statements (continued)

Note 7 – Auditors' Remuneration

Fees paid and payable to the Company's auditor's are as follows:

	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Audit of the financial statements	298	308
Audit related assurance services	122	62
Total	420	370

Note 8 – Taxation

The major components of the income tax expense for the years ended 31st December 2014 and 2013 are:

(a) Tax charged in the income statement

	Year ended 31 December 2014 £000s	Year ended 31December 2013 £000s
Current income tax:		
UK corporation tax	7,045	37,460
Adjustments in respect of prior periods	-	16
Total Current Income Tax	7,045	37,476
Deferred tax:		
Origination and reversal of temporary differences	(224)	3,277
Impact of changes in tax laws and rates	-	464
Total Deferred Tax	(224)	3,741
Total Expense in the Income Statement	6,821	41,217

Notes to the Financial Statements (continued)

Note 8 – Taxation (continued)

(b) Reconciliation of the total tax charge

The tax expense in the Statement of Comprehensive Income for the year and the standard rate of corporation tax in the UK of 21.49% (2013: 23.25%) is reconciled below:

	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Profit from continuing operations before tax	34,980	184,396
Tax calculated at UK standard rate of corporation tax of 21.49% (2013: 23.25%)	7,517	42,872
Adjustment to tax charge in respect of prior periods	-	16
Disallowed expenditure	471	-
Impact of changes in tax laws and rates	-	(464)
Utilisation of losses surrendered by group undertakings	(1,167)	-
Utilisation of previously unrecognised tax losses	-	(1,207)
Total Tax Expense Reported in the Statement of Comprehensive Income	6,821	41,217

Note 9 – Investment Return

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

	Year ended 31 December 2014 £000s	Year ended 31 December 2013 £000s
Interest income on financial investments at fair value through profit and loss	214,587	168,866
Realised gains/(losses) on financial investments	289,082	(58,000)
Unrealised gains/(losses) on financial investments	902,927	(210,841)
Investment expenses	(7,247)	-
Total Investment Return	1,399,349	(99,975)

Notes to the Financial Statements (continued)

Note 10 – Business Combinations

Acquisition of Rothesay Assurance Limited

On 16th May 2014, the Company acquired 100% of the ordinary shares of MetLife Assurance Limited for a cash consideration of £421.4m. MetLife Assurance Limited was the UK bulk annuity business of MetLife Inc. The acquisition was consistent with the Company's strategy to supplement organic growth. MetLife Assurance Limited was renamed Rothesay Assurance Limited on 23rd June 2014.

	£000s
Cash paid as part of consideration	(421,381)
Net Cash Outflow	**(421,381)**

The fair value of the assets and liabilities at the date of acquisition was as follows:

	Fair value recognised on acquisition £000s	Previous carrying value £000s
Financial investments	3,039,214	3,039,214
Receivables	67,963	69,963
Cash and cash equivalents	66,567	66,567
	3,173,744	3,175,744
Gross insurance contract liabilities	(2,623,545)	(2,687,945)
Payables	(72,405)	(72,405)
	(2,695,950)	(2,760,350)
Total Identifiable Net Assets	477,794	415,394
Gain on bargain purchase arising on acquisition	(56,413)	
Total Consideration	421,381	

Notes to the Financial Statements (continued)

Note 11 – Property, Plant and Equipment

	Furniture and Fittings £000s	Total £000s
Cost		
As at 1 January 2014	-	-
Additions	1,524	1,524
Disposals	-	-
As at 31 December 2014	**1,524**	**1,524**
Accumulated Depreciation		
As at 1 January 2014	-	-
Charge for the year	-	-
Disposals	-	-
As at 31 December 2014	-	-
Net Book Value		
As at 31 December 2014	**1,524**	**1,524**
As at 31 December 2013	-	-

As part of the development of fully independent infrastructure and computer systems the Group moved into new premises during early 2015. Furniture and Fittings additions reflect the build out of the office in preparation for the move. The fit out was completed during December 2014 and therefore no depreciation has been charged during the year.

Notes to the Financial Statements (continued)

Note 12 – Financial Investments

The Company's Financial Investments are grouped in a single category:

	31 December 2014 £000s	31 December 2013 £000s
Financial Investments	18,338,666	11,300,849

This is made up of:

	Current Value		Cost	
	31 December 2014 £000s	31 December 2013 £000s	31 December 2014 £000s	31 December 2013 £000s
Collective investment schemes	628,257	425,237	321,891	217,873
Government and agency obligations	4,151,886	2,505,789	3,522,572	2,257,550
Corporate debt	3,596,702	3,083,115	3,198,116	3,198,847
Derivative assets	6,432,490	2,407,740	201,791	320,988
Collateralised agreements and financing	3,400,828	2,878,968	3,177,387	2,953,499
Certificates of deposit	128,503	-	93,671	-
	18,338,666	11,300,849	10,515,428	8,948,757

Note 13 – Fair Value

Determination of fair value and fair values hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

Notes to the Financial Statements (continued)

Note 13 – Fair Value (continued)

The following tables shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy for 2014 and 2013:

31 December 2014

	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial investments:				
Collective investment scheme	628,257	-	-	628,257
Government and agency obligations	2,295,129	1,856,757	-	4,151,886
Corporate debt	-	3,348,293	248,409	3,596,702
Derivative assets	-	6,430,704	1,786	6,432,490
Collateralised agreements and financing	-	3,400,828	-	3,400,828
Certificate of deposits	-	128,503	-	128,503
Total Financial Investments at Fair Value	**2,923,386**	**15,165,085**	**250,195**	**18,338,666**
Financial liabilities:				
Derivative financial instrument	-	6,233,605	6,653	6,240,258
Collateralised financing agreements	-	2,022,430	-	2,022,430
Total Financial Liabilities at Fair Value	-	**8,256,035**	**6,653**	**8,262,688**

31 December 2013

	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial investments:				
Collective investment scheme	425,237	-	-	425,237
Government and agency obligations	941,533	1,564,256	-	2,505,789
Corporate debt	27,898	2,093,327	961,890	3,083,115
Derivative assets	-	2,403,762	3,978	2,407,740
Collateralised agreements and financing	-	2,326,201	552,767	2,878,968
Total Financial Investments at Fair Value	**1,394,668**	**8,387,546**	**1,518,635**	**11,300,849**
Financial liabilities:				
Derivative financial instruments	-	2,247,464	18,697	2,266,161
Collateralised financing agreements	-	1,281,069	-	1,281,069
Total Financial Liabilities at Fair Value	-	**3,528,533**	**18,697**	**3,547,230**

Around 1% (2013:13%) 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 13 – Fair Value (continued)

The following table shows a reconciliation of the opening and closing recorded amounts in relation to the Level 3 financial instruments recorded at fair value:

	Corporate debt £000s	Collateralised agreements £000s	Derivatives £000s	Total £000s
At 1 January 2014	**961,890**	**552,767**	**(14,719)**	**1,499,938**
Total gains in the Statement of Comprehensive Income:				
Realised gains/(losses)	-	-	-	-
Unrealised gains/(losses)	25,693	-	9,852	35,545
Transfer into level 3	24,511	-	-	24,511
Transfer out of level 3	(812,535)	(552,767)	-	(1,365,302)
Transfers between assets and liabilities	-	-	-	-
Purchases/additions/ sales/disposals	48,850	-	-	48,850
At 31 December 2014	**248,409**	**-**	**(4,867)**	**243,542**
At 1 January 2013	**10**	**543,606**	**183,829**	**727,445**
Total gains in the Statement of Comprehensive Income:	-	-	-	-
Unrealised gains/(losses)	-	9,161	-	9,161
Transfer into level 3	44,660	-	-	44,660
Purchases/additions	917,220	-	3,977	921,197
Other	-	-	(202,525)	(202,525)
At 31 December 2013	**961,890**	**552,767**	**(14,719)**	**1,499,938**

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

During the year, the Company 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 £24.5m (2013:£44.7m) and from Level 3 to Level 2 is £1,365.3m (2013: nil). The reason for the change is a change in the availability of observable market transactions or broker quotes for the same or similar instruments

Notes to the Financial Statements (continued)

Note 13 – Fair Value (continued)

Sensitivity of Level 3 Financial Instruments Measured at Fair Value to Changes in Key Assumptions

The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions by class of instrument:

Impact on Financial Assets and Liabilities	Main Assumptions	Sensitivity	2014 Current FV £000s	2014 Decrease in FV £000s	2014 Increase in FV £000s
Financial Assets					
Corporate debt	Discount rate	+/50bps interest rate	248,409	(23,733)	23,733
Derivative assets	Expected defaults	+/-50bps credit spread	1,786	(472)	472
Financial Liabilities					
Derivative liabilities	Expected defaults	+/-50bps credit spread	(6,654)	(1,099)	1,099

Impact on Profit Before Tax	Main Assumptions	Sensitivity	2014 Current FV £000s	2014 Decrease in FV £000s	2014 Increase in FV £000s
Financial Assets					
Corporate debt	Discount rate	+/50bps interest rate	248,409	(7,509)	7,509
Derivative assets	Expected defaults	+/-50bps credit spread	1,786	(472)	472
Financial Liabilities					
Derivative liabilities	Expected defaults	+/-50bps credit spread	(6,654)	(1,099)	1,099

Impact on Financial Assets and Liabilities	Main Assumptions	Sensitivity	2013 Current FV £000s	2013 Decrease in FV £000s	2013 Increase in FV £000s
Financial Assets					
Corporate debt	Discount rate	+/50bps interest rate	961,891	(48,521)	48,521
Derivative assets	Expected defaults	+/-50bps credit spread	3,977	(7,272)	7,272
Collateralised agreements and financing	Discount rate	+/-50bps Interest rate	552,765	(7,699)	7,699
Financial Liabilities					
Derivative liabilities	Expected defaults	+/-50bps credit spread	(18,697)	(1,245)	1,245

Notes to the Financial Statements (continued)

Note 13 – Fair Value (continued)

Sensitivity of Level 3 Financial Instruments Measured at Fair Value to Changes in Key Assumptions (continued)

Impact on Profit Before Tax	Main Assumptions	Sensitivity	2013 Current FV £000s	Decrease in FV £000s	Increase in FV £000s
Financial Assets					
Corporate debt	Discount rate	+/50bps interest rate	961,891	(16,206)	16,206
Derivative assets	Expected defaults	+/-50bps default probability	3,977	(7,272)	7,272
Collateralised agreements and financing	Discount rate	+/-50bps interest rate	552,765	-	-
Financial Liabilities					
Derivative liabilities	Expected defaults	+/-50bps default probability	(18,697)	(1,245)	1,245

The fair value recognised of certain debt securities classified as level 3 instruments is determined using inputs that are not based on observable market data. The valuation model discounts the future cash flows using interest rate swap curve in addition to a spread to reflect the associated credit and liquidity risk. The sensitivities shown above assume all other pricing inputs remain constant.

Note 14 – Receivables

	31 December 2014 £000s	31 December 2013 £000s
Deposits pledged as collateral to third parties	317,703	56,738
Amounts due from group undertakings	5,771	-
Amounts due from undertakings with participating interest	1,979	12,954
Tax receivable	16	16
Other debtors	895	675
	326,364	70,383

All receivables are due within one year. The fair value of receivables is £326.4m (2013: £70.4m).

The net exposure to certain OTC derivatives is collateralised through cash, as per the terms of the OTC contracts. At 31st December 2014, the total cash collateral was £317.7m (2013: £56.7m). Further details of the full extent of collateral usage can be found in the credit risk disclosure in Note 26.

Notes to the Financial Statements (continued)

Note 15 – Deferred Taxation

Deferred tax balances comprise:

	31 December 2014 £000s	31 December 2013 £000s
Losses carried forward	(2,914)	-
Temporary differences between the financial statements and the tax deductions for insurance liabilities	224	(2,914)
	(2,690)	(2,914)

The movements in the deferred tax balances were as follows:

	31 December 2014 £000s	31 December 2013 £000s
At 1 January	(2,914)	827
Impact of tax rate change on opening balance	-	464
Tax losses utilised	-	(4,577)
Capital allowances	(121)	-
Transitional adjustments	345	372
At 31 December	(2,690)	(2,914)

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

Note 16 – Accrued Interest and Prepayments

	31 December 2014 £000s	31 December 2013 £000s
Accrued interest	88,992	77,245
Prepaid expenses	6,596	618
	95,588	77,863

Note 17 – Cash and Cash Equivalents

The cash at bank and in hand of the Company at the year end are as follows:

	31 December 2014 £000s	31 December 2013 £000s
Cash at bank and in hand	86,631	88,983
	86,631	88,983

Notes to the Financial Statements (continued)

Note 18 – Insurance Contract Liabilities

Key Valuation Assumptions

This note details the assumptions with the greatest impact on the Company's insurance contract liability valuations.

(a) Mortality Assumptions

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

	31 December 2014		31 December 2013	
	Males	Females	Males	Females
Base mortality	103.7% S1PMA	103.7% S1PFA	95.7% S1PMA	95.7% S1PFA
Mortality improvements	CMI_2012_M[2.7%]	CMI_2012_F[2.2%]	CMI_2012_M[2.25%]	CMI_2012_F[1.85%]

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

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

Mortality assumptions are set with reference to standard tables drawn up by the Continuous Mortality Investigation Bureau ('CMIB') of the Institute and Faculty of Actuaries. These tables are based on industry-wide experience. For this year the mortality tables used were adjusted for the final scheme remaining on PCMA00 and PCFA00 standard tables to use a set percentage of the S1 suite of tables. All other schemes were converted during 2013.

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

Prudent margins are then applied to the demographic basis to reflect the fact that future experience for the schemes may differ from that assumed. Since the previous valuation the shape of the prudent margins applied has been revised to be more reflective of reinsurance pricing.

Notes to the Financial Statements (continued)

Note 18 – Insurance Contract Liabilities (continued)

(b) Valuation Rate of Interest

The valuation rate of interest used to discount the cash flows for the purpose of valuing insurance contract liabilities is based on the PRA Pillar 1 regulatory requirements, as modified by a waiver granted by the PRA in September 2008 and renewed in 2013 to allow the Company to reflect the yield (internal rate of return) on the combined matching assets rather than an average yield based on market value weighted durations. It is determined based on the yield obtainable on the basket of assets matching the PRA Pillar 1 mathematical reserves at 31st December 2014.

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

	31 December 2014	31 December 2013
Equivalent valuation discount rate	2.93%pa	4.02%pa

This reflects both the prescribed PRA 2.5% prudential margin applied to the risk adjusted internal rate of return obtained on the basket of matching assets and the allowance for investment management expenses of 3bps p.a. (2013: 3bps p.a.).

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

The table below shows the average yield deduction at 31st December 2014 and 31st December 2013 by asset category:

Asset Class	Average yield reduction	
	31 December 14	31 December 13
UK Government approved securities	0bps	0bps
Corporate bonds after allowance for covering credit default swaps	0bps	0bps
Secured lending	6bps	8bps
Supranational/Other sovereign	16bps	16bps
Secured residential lending	29bps	30bps
Infrastructure	80bps	79bps
Other	36bps	30bps
Overall	**16bps**	**16bps**

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

Notes to the Financial Statements (continued)

Note 18 – Insurance Contract Liabilities (continued)

(c) Expenses

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

Within these expense provisions, an allowance for future expense inflation has been provided cover tocover 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. (2013: 0.25% p.a.) for the overhead maintenance expenses and an addition at each duration of 1.00% p.a. (2013: 1.00% p.a.) for the TPA expenses.

Other Assumptions

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

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

Notes to the Financial Statements (continued)

Note 18 – Insurance Contract Liabilities (continued)

(d) Movements in Insurance Contract Liabilities

	31 December 2014			31 December 2013		
	Insurance Liabilities	Reinsurance Assets	Net Liabilities	Insurance Liabilities	Reinsurance Assets	Net Liabilities
	£000s	£000s	£000s	£000s	£000s	£000s
Carrying amount at 1 January	6,953,306	164,325	6,788,981	6,323,645	240,607	6,083,038
Increase in respect of new business	1,282,942	22,723	1,260,219	1,322,798	8,185	1,314,613
Release of liabilities/liabilities discharged	(341,795)	17,680	(359,475)	(205,093)	18,089	(223,182)
Effect of non-economic assumption changes	3,298	(25,989)	29,287	(170,444)	(86,203)	(84,241)
Effect of economic assumption changes	1,444,068	55,313	1,388,755	(317,600)	(16,353)	(301,247)
Other	68	-	68	-	-	-
Closing Balance at 31 December	9,341,887	234,052	9,107,835	6,953,306	164,325	6,788,981

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 margin and unwind of discounting over the period.

Effect of Changes in Assumptions and Estimates During the Year

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

Change in assumptions used	Increase/ (decrease) in liabilities £000's
Valuation interest rate	1,572,601
Inflation	(183,846)
Demographics	35,083
Expenses	(5,796)
	1,418,042

As shown previously the valuation interest rate decreased by 1.09% over the year which led to the £1.6bn movement in the liability shown. This was change predominantly due to significant changes in interest rates for example a benchmark 30 year swap fell 1.16% in the period.

The movement in the demographic assumptions shown reflects the changes to mortality assumptions and prudent margins applied during the year leading to a £35m increase in liabilities.

Notes to the Financial Statements (continued)

Note 18 – Insurance Contract Liabilities (continued)

(e) Sensitivity Analysis

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

2014	Change in Assumptions	Increase (decrease) on liabilities	Increase (decrease) on PBT	Impact on Equity
		£000s	£000s	£000s
Annuitant mortality	+5% qx	(87,242)	87,242	68,494
Annuitant mortality	-5% qx	92,146	(92,146)	(72,344)
Interest rate	+100bps	(1,333,077)	14,532	11,409
Interest rate	-100bps	1,721,044	(1,692)	(1,329)
Inflation	+100bps	633,199	9,750	7,655
Inflation	-100bps	(597,076)	43,735	34,336
Long-term credit default assumptions	+10bps	729	(27,658)	(21,714)
Long-term credit default assumptions	-10bps	(729)	28,401	22,298
Expenses	+10%	19,213	(19,213)	(15,084)

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

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

2014	Change in Assumptions	Increase/ (decrease) on Insurance Liability	Increase/ (decrease) on Reinsurance Asset	Net increase/ (decrease) on liabilities
		£000s	£000s	£000s
Annuitant mortality	+5% qx	(282,144)	194,902	(87,242)
Annuitant mortality	-5% qx	300,728	(208,582)	92,146

As can be seen from the table above the impact of the reinsurance is to reduce the sensitivity to mortality risk by 69%.

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

Notes to the Financial Statements (continued)

Note 18 – Insurance Contract Liabilities (continued)

(e) Sensitivity Analysis (continued)

The table below show discounted insurance liability cash flows, which are expected to arise during each period:

	31 December 2014			
	Less than 1 year £000s	1 to 5 years £000s	Over 5 years £000s	Total £000s
Insurance liability cash flows	388,834	1,465,015	7,488,038	9,341,887
Reinsurance asset cash flows	20,950	75,636	(330,638)	(234,052)
	409,784	1,540,651	7,157,400	9,107,835

	31 December 2013			
	Less than 1 year £000s	1 to 5 years £000s	Over 5 years £000s	Total £000s
Insurance liability cash flows	350,515	1,322,318	5,280,473	6,953,306
Reinsurance asset cash flows	17,254	51,839	(233,418)	(164,325)
	367,769	1,374,157	5,047,055	6,788,981

Note 19 – Reinsurance Assets

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

	31 December 2014 £000s	31 December 2013 £000s
Reinsurance of insurance contract liabilities	234,052	164,325

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

An analysis of the movement in reinsurance of insurance contract liabilities is included in Note 18.

At 31st December 2014 the Company conducted an impairment review of the reinsurance assets and found no impairment necessary.

Notes to the Financial Statements (continued)

Note 20 – Payables and Financial Liabilities

	31 December 2014 £000s	31 December 2013 £000s
Derivative financial instruments	6,240,258	2,266,161
Collateralised financing agreements	2,022,430	1,281,069
Deposits received as collateral for derivatives from other group undertakings	120,160	-
Deposits received as collateral from third parties	450,969	40,168
Deposits received as collateral for derivatives from participating interest	464,506	224,110
Amounts due to group undertakings	13,644	6,923
Current tax payable	-	35,330
Other payables	2,485	203,524
	9,314,452	4,057,285

The net exposures to certain OTC derivatives are collateralised through cash. As at 31st December 2014, the total cash collateral received was £1,035.6m (2013: £264.3m). Other OTC contracts are collateralised with fixed income securities which are not recognised on the Statement of Financial Position of the Company.

At 31st December 2013 other payables included a £200m payable in relation to bonds purchased with settlement dates after the year end.

Note 21 – Borrowings

The Company's borrowings are as follows:

	31 December 2014 £000s	31 December 2013 £000s
Affiliate subordinated loan	100,000	100,000

The amounts outstanding at 31st December 2014 consist of floating rate perpetual callable securities issued to an affiliate. The securities issued are unsecured and carry deferrable interest at six month sterling LIBOR plus 425bps per annum. These securities are callable at par on 21st December 2017 and every six months thereafter. The principal constitutes regulatory capital. The repayment of the securities are subject to PRA consent.

The fair value of borrowings is £100m (2013: £100m).

Notes to the Financial Statements (continued)

Note 22 – Share Capital

At 31st December 2014 and 31st December 2013 share capital comprised:

	31 December 2014		31 December 2013	
	No.	£000s	No.	£000s
Authorised share capital (ordinary shares of £1 each)	183,900,840	183,901	155,120,923	155,121

On 16th May 2014 the Company allotted 28,779,840 shares of £1.00 each to RHUK, the ultimate parent of RLL. The total cash consideration received was £116.3m, reflecting share premium of £87.5m.

Note 23 – Share Premium Account and Reserve

	Share premium £000s	Retained earnings £000s
At 1 January 2014	112,379	301,963
Profit for the financial year	-	28,159
Shares issues	87,475	-
At 31 December 2014	199,854	330,122

Note 24 – Dividends

	31 December 2014 £000s	31 December 2013 £000s
Interim Ordinary Share Dividends (£1.81 per £1.00 ordinary share)	-	281,000
	-	281,000

The Directors have recommended that no interim ordinary dividends be paid (2013:£281m).

The Directors have recommended that no final ordinary dividend in respect of the year be paid. (2013:£nil).

Notes to the Financial Statements (continued)

Note 25 – Derivatives

The Company utilises derivative financial instruments as part of its asset/liability risk management practice. It enters into derivative contracts to match the Insurance Contract Liabilities arising on Insurance Contracts that it issues.

The following table shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying assets, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

	31 December 2014			31 December 2013		
	Assets £000s	Liabilities £000s	Notional Amount £000s	Assets £000s	Liabilities £000s	Notional Amount £000s
Derivatives Held for Risk Management:						
Interest rate swap	5,088,055	(4,788,053)	71,611,982	2,029,005	(1,717,851)	51,708,091
Inflation swap	1,201,261	(1,239,365)	26,399,961	309,231	(473,342)	21,348,989
Currency swap	114,318	(126,837)	8,148,629	64,358	(29,133)	4,773,840
Credit derivative	28,759	(76,098)	3,449,834	5,103	(34,974)	695,974
Foreign currency forwards	97	(9,905)	946,626	43	(10,861)	397,712
	6,432,490	(6,240,258)	110,557,032	2,407,740	(2,266,161)	78,924,606

At their inception, derivatives often involve only a mutual exchange of promises, with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Company. Over-the-counter derivatives may expose the Company to the risks associated with the absence of an exchange market on which to close out an open position.

The Company's exposure under derivative contracts is closely monitored as part of the overall management of the Company's market risk (see also Note 26). As of 31st December 2014, the Company had positions in the following types of derivatives:

Notes to the Financial Statements (continued)

Note 25 – Derivatives (continued)

Interest rate swaps

Interest rate swaps are contractual agreements between two parties to exchange movements in interest rates. Typically, for an interest rate swap, a floating rate interest stream will be exchanged for a fixed rate or vice versa. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

Inflation swaps

The Company uses inflation swaps and options to hedge the inflation linked benefits on the pension liabilities of the UK insurance business.

Currency swaps

In a currency swap, the Company pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross–settled.

Credit derivatives

The Company uses credit derivatives to hedge counterparty risk of its assets in the event of default of corporate or sovereign bonds.

Forward and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts traded in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk. The Company has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange help ensure that these contracts are always honoured. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

Note 26 – Financial Risk Management

The Company is exposed to financial risk through its financial assets, financial liabilities and Insurance Contract Liabilities. The risks, described below, are managed in accordance with risk management policies and procedures established by the Company.

The Board Risk Committee advises and make recommendations to the Board of Directors to assist it in providing leadership, direction and oversight of the Company's risk appetite, risk strategy and risk management framework and of the risk aspects of major investments and corporate transactions. The Board Risk Committee has oversight of the Working Level Risk Committee, which is an executive committee and is assigned responsibility for the on-going monitoring and control of the financial and insurance risks associated with the activities of the Company.

In addition to the committees, independent functions such as Compliance, Finance (including Risk Management), Legal, Internal Audit and Operations, perform risk management functions, which include assessing, monitoring, reporting and evaluating risk.

Notes to the Financial Statements (continued)

Note 26 – Financial Risk Management (continued)

Market Risk

Market risk is the risk of changes in the value of the Company's net asset position due to changes in market prices. Financial investments are accounted for at fair value and, therefore, fluctuate on a daily basis. Categories of market risk include the following:

- Interest rate risk arises from discounting cash flow mismatches across all future dates. Profits and losses are generated through changes in the level, slope and curvature of interest rate curves. The risk is hedged using interest rate swaps.

- Inflation rate risks results from mismatches in the index linkage of annuities and assets. Profits and losses are generated through changes to the level, slope and curvature of inflation curves. The risk is hedged using inflation swaps.

- Currency rate risk results from mismatches in the denomination of annuities and assets. Profits and losses are generated due to changes in the level of foreign exchange rates. The risk is hedged using spot foreign exchange and cross currency swaps.

The Company manages market risk by diversifying exposures, controlling position sizes and establishing economic hedges in related securities, derivatives and insurance liabilities.

This includes:

- Accurate and timely exposure information incorporating multiple risk metrics;

- A dynamic limit setting framework; and

- Constant communication between risk management and senior management.

The Company's Risk Function, which is independent of management and reports to the Chief Risk Officer, has responsibility for assessing, monitoring and managing market risk. Risks are monitored and controlled through strong oversight and independent control and support functions across the business.

Market risk limits are set by the Board Risk Committee and the Risk Function monitors exposures against those.

Senior management is responsible and accountable for managing market risks daily within prescribed limits. They have in depth knowledge of their positions, markets and the instruments available to hedge their exposures.

In addition to applying business judgement, management uses a number of quantitative tools to manage the exposure to market risk for 'Financial Investments' in the Financial Statements. These tools include scenario analyses, stress test and other analytical tools that measure the potential effects on the net revenues of various market events, including, but not limited to, a large widening of credit spreads, as well as volatility in interest, inflation and mortality rates.

Management and the Risk Function discuss market information, positions and estimated risk and loss scenarios on an ongoing basis.

Notes to the Financial Statements (continued)

Note 26 – Financial Risk Management (continued)

Market Risk (continued)

Interest Rate Risk Sensitivity Analysis

Change in Variables	31 December 2014 Impact on PBT £000s	Impact on Equity Up to a Year £000s
(+) 1 basis point	102	80
(-) 1 basis point	(102)	(80)

Change in Variables	31 December 2013 Impact on PBT £000s	Impact on Equity Up to a Year £000s
(+) 1 basis point	295	226
(-) 1 basis point	(295)	(226)

There was no change in the method used for deriving sensitivity information and significant variables during the year.

Inflation rate risk sensitivity analysis

Change in Variables	31 December 2014 Impact on PBT £000s	Impact on Equity Up to a Year £000s
(+) 1 basis point	(219)	(172)
(-) 1 basis point	219	172

Change in Variables	31 December 2013 Impact on PBT £000s	Impact on Equity Up to a Year £000s
(+) 1 basis point	(46)	(35)
(-) 1 basis point	46	35

Notes to the Financial Statements (continued)

Note 26 – Financial Risk Management (continued)

Credit Risk

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty, e.g. an OTC derivatives counterparty or an issuer of corporate debt instruments. Credit risk also comes from cash placed with banks and collateralised financing transactions, (i.e. resale and repurchase agreements) and receivables from customers and counterparties.

The Board Risk Committee establishes and reviews credit policies and parameters. Policies authorised by the Board Risk Committee prescribe the level of formal approval required to assure credit exposure to a counterparty across all product areas are in line with the risk taking capacity and strategy, taking into account any enforceable netting provisions, collateral or other credit risk mitigants.

The Chief Credit Officer, who is independent of management and reports to the Chief Risk Officer, has responsibility for assessing and monitoring credit risk. Risks are monitored and controlled through strong oversight and independent control and support functions across the business.

Senior management is responsible and accountable for managing credit risks within prescribed limits. They have in depth knowledge of the credit positions, underlying models and the instruments available to hedge the credit exposures.

Effective management of credit risk requires accurate and timely information, a high level of communication and knowledge of customers, countries, industries and products. The process for managing credit risk includes:

- Assessing the likelihood that counterparty will default on its payment obligations;
- Measuring and modelling the Company's current and potential credit exposures and losses resulting from counterparty defaults;
- Approving credit risk generated by transactions and investments;
- Determining and reviewing the use of credit risk mitigants, including collateral and hedging;
- Establishing counterparty risk and concentration limits;
- Monitoring and communicating the utilisation of and compliance with established credit exposure limits;
- Identifying, monitoring and managing potential problem credits;
- Performing adequate stress tests to assess the Company's vulnerability to certain scenarios and risk concentrations; reporting and where necessary, escalating of credit exposures to senior management, the Working Level Risk Committee, the Board Risk Committee, and possibly the Board of Directors and regulators; and
- Communicating and collaborating with other independent control and support functions such as Operations, Legal and Compliance.

The credit risk management systems capture OTC credit derivative exposure to individual counterparties and on an aggregate basis to counterparties and their subsidiaries (economic groups). These systems also provide management with comprehensive aggregate credit risk by product, credit rating, industry, country and region. This is complemented by an additional platform for the measurement, monitoring, management and reporting of non-OTC credit exposures, including gross receivable exposures.

Notes to the Financial Statements (continued)

Note 26 – Financial Risk Management (continued)

Credit Risk (continued)

Risk Mitigants

To reduce the credit exposures on derivatives and collateralised agreement transactions, the Company enters into netting agreements with counterparties that permit it to offset receivables and payables. By entering into these agreements that enable it to obtain collateral from them on an upfront or contingent basis and/or terminate transactions if the counterparty's credit rating falls below a specified level.

When the Company does not have sufficient visibility into a counterparty's financial strength or when it believes a counterparty requires support from its parent company, the Company may obtain third party guarantees of the counterparty's obligations. The Company also mitigates its credit risk using credit derivatives.

Credit Exposures

The Company's credit exposures are described further below.

Cash and Cash Equivalents. Cash and cash equivalents include both interest bearing and non-interest bearing deposits. To mitigate the risk of credit loss, the Company places its deposits with banks assigned minimum ratings in the single A rating category and central banks. Cash deposits with banks rated lower than the single A category are subject to approval by the Board Risk Committee, in line with Company's liquidity policy.

OTC Derivatives. Derivatives are reported at fair value on a gross by counterparty basis in the Company's Financial Statements unless the Company has current legal rights of set off and also intends to settle on a net basis. OTC derivatives are risk managed using the risk processes, measures and limits described above.

A waiver to INSPRU 3.2.5R(3) was granted in July 2010 and renewed in July 2013. This allowed the Company to treat a derivative contract with a pension scheme as an admissible asset. The purpose of the derivative contract is to provide a hedge for a specific pension scheme against market risk. The Company has hedged this risk with a derivative contract with an approved counterparty.

Collateralised Agreements. The Company bears credit risk related to resale agreement and securities borrowed only to the extent that cash advanced to the counterparty exceeds the value of the collateral received. Therefore, the Company's credit exposure on the transactions is significantly lower than the amounts recorded on the balance sheet (which represents fair values or contractual value before consideration of collateral received). The Company also has credit exposure on repurchase agreements and securities loaned, which are liabilities on its Statement of Financial Position, to the extent that the collateral pledged for these transactions exceeds the amount of cash received.

Other Credit Exposures. The Company is exposed to credit risk from its receivables from customers and counterparties. Receivables from counterparties are generally comprised of collateralised receivables related to customer securities transactions and have minimal credit risk due to the value of the collateral received. In addition, the Company invests in highly rated assets or assets where there is underlying structural security in the event of a default. These assets include supranational sovereign bonds, sub-sovereign bonds and covered bonds.

Notes to the Financial Statements (continued)

Note 26 – Financial Risk Management (continued)

Credit Risk (continued)

The following table identifies the amounts that are covered by enforceable netting arrangements (netting under master netting agreements, cash collateral and security collateral) but do not qualify for netting under IAS32.

	31 December 2014				
		Related amounts not offset			
	Net amounts of financial assets presented in the statement of financial position	Netting under master netting agreements	Cash collateral	Security collateral	Net credit exposures
	£000s	£000s	£000s	£000s	£000s
Exposure to Credit Risk by Class					
Investment in subsidiary	421,381	-	-	-	421,381
Property, plant and equipment	1,524	-	-	-	1,524
Collective investment schemes	628,257	-	-	-	628,257
Government and agency obligations	4,151,886	-	-	-	4,151,886
Corporate debt	3,596,702	-	-	-	3,596,702
Derivative assets	6,432,490	(4,439,708)	(356,710)	(1,636,072)	-
Collateralised agreements and financing	3,400,828	-	(101,112)	(3,299,716)	-
Certificate of deposits	128,503	-	-	-	128,503
Reinsurance assets	234,052	-	-	-	234,052
Accrued income and prepayments	95,588	-	-	-	95,588
Receivables	326,364	-	-	-	326,364
Cash and cash equivalents	86,631	-	-	-	86,631
	19,504,206	(4,439,708)	(457,822)	(4,935,788)	9,670,888

Notes to the Financial Statements (continued)

Note 26 – Financial Risk Management (continued)

Credit Risk (continued)

	31 December 2013				
		Related amounts not offset			
	Net amounts of financial assets presented in the statement of financial position	Netting under master netting agreements	Cash collateral	Security collateral	Net credit exposures
	£000s	£000s	£000s	£000s	£000s
Exposure to Credit Risk by Class					
Collective investment schemes	425,237	-	-	-	425,237
Government and agency obligations	2,505,789	-	-	-	2,505,789
Corporate debt	3,083,115	-	-	-	3,083,115
Derivative assets	2,407,740	(1,374,084)	(248,470)	(785,186)	-
Collateralised agreements and financing	2,878,968	-	(15,808)	(2,863,160)	-
Reinsurance assets	164,325	-	-	-	164,325
Accrued income and prepayments	77,863	-	-	-	77,863
Receivables	70,383	-	-	-	70,383
Cash and cash equivalents	88,983	-	-	-	88,983
	11,702,403	(1,374,084)	(264,278)	(3,648,346)	6,415,695

Right of Offset

As described in the risk mitigants section of this note, the Company has the right of offset for certain financial assets and liabilities.

Netting under master netting agreements of £4,440m (2013: £1,374m) reflects the offsetting of derivative assets with liabilities for which the Company has a right to set off in the event of default. Cash and security collateral have been offset to the extent there are credit exposures on the balance sheet.

The Company has received total security collateral of £5,164.8m (2013: £4,291.7m) of which £4,935.8m (2013: £3,648.3m) has been applied against net exposure, leaving excess of £229m (2013: £643.3m). Security collateral exposes the Company to further market and credit risk. This is mitigated through the use of haircuts and over collateralisation.

Credit default swaps and total return swaps (which contain credit protection) have been purchased to protect the Company from default on corporate bonds. The table above does not reflect the protection provided. The Company calls margins, receivable in cash, against this exposure and other derivative positions.

In a distressed situation the value of collateral may vary depending on credit quality and interest rates. The effectiveness of collateral as a credit risk mitigant will depend on the operational expertise of the collateral manager and the ability to seize the collateral in a distressed scenario.

Notes to the Financial Statements (continued)

Note 26 – Financial Risk Management (continued)

Credit Risk (continued)

The table below shows the Company's gross and net credit exposure based on external ratings (lowest of Standard & Poor's, Moody's and Fitch ratings). In line with industry standards, Stability Ratings are used to rate the money market funds in which the Company invests.

The total net credit exposure of £296.4m relates to bonds held within negative basis packages, for which maturity matched credit default swap protection is held.

Net credit exposure is primarily in 'AAA' and 'AA' bonds. AAA assets include supranational bonds, sub sovereigns, covered bonds and certificates of deposit. 'AA' assets include Gilts. Other net credit exposures rated 'A' and 'BBB' include investments in regulated infrastructure assets and UK social housing bonds, which are secured on property assets.

As of current and prior year end there were no financial assets past due or impaired.

	31 December 2014				
		Related amounts not offset			
	Net amounts of financial assets presented in the statement of financial position	Netting under master netting agreements	Cash collateral	Security collateral	Net credit exposures
	£000s	£000s	£000s	£000s	£000s
Exposure to Credit Risk by Rating					
AAA	1,717,173	-	-	-	1,717,173
AA	6,161,880	(133,771)	-	(1,445,363)	4,582,746
A	6,741,209	(2,505,603)	(165,269)	(2,683,159)	1,387,178
BBB	2,066,457	(965,201)	(174,764)	(442,349)	484,143
BB	191,026	-	(1,600)	(106,018)	83,408
Unrated	2,626,461	(835,133)	(116,189)	(258,899)	1,416,240
	19,504,206	(4,439,708)	(457,822)	(4,935,788)	9,670,888

The unrated financial assets of £ 2,626.5m (2013: £115.8m) reflect investments in issuers and issues that are not externally rated. During the year, the Group invested in unrated financial assets which are subject to very low credit risk.

Notes to the Financial Statements (continued)

Note 26 – Financial Risk Management (continued)

Credit Risk (continued)

	31 December 2013				
		Related amounts not offset			
	Net amounts of financial assets presented in the statement of financial position	Netting under master netting agreements	Cash collateral	Security collateral	Net credit exposures
	£000s	£000s	£000s	£000s	£000s
Exposure to Credit Risk by Rating					
AAA	1,777,652	-	-	-	1,777,652
AA	3,488,192	-	(10,030)	(709,529)	2,768,633
A	5,058,372	(1,374,084)	(241,841)	(2,348,546)	1,093,901
BBB	1,033,326	-	(9,861)	(363,405)	660,060
BB	229,412	-	(2,546)	(226,866)	-
Unrated	115,449	-	-	-	115,449
	11,702,403	(1,374,084)	(264,278)	(3,648,346)	6,415,695

Liquidity Risk

Liquidity risk arises where timing differences and/or uncertainties occur between cash inflows and cash outflows. The objective of liquidity management is to ensure that the Company is capable of honouring all cash flow commitments on both an on-going basis and in a stressed scenario, without incurring significant cost or business disruption. The Company's liquidity and funding policy is designed to ensure the availability of sufficient funds to meet cash flow requirements on a timely basis via:

- Maintenance of substantial excess liquidity. The Company seeks to enter into long term, illiquid contracts that match its liabilities in order to maximise the value of the illiquidity premium. To mitigate residual liquidity risk the Company maintains substantial excess liquidity to meet a broad range of potential cash outflows in a stressed environment including financing obligations.

- Conservative asset-liability management. The Company seeks to maintain funding sources that are sufficiently long term in order to withstand a prolonged or severe liquidity-stressed environment without having to rely on asset sales.

The Risk function which is independent of management and reports to the Chief Risk Officer, has primary responsibility for assessing, monitoring and managing liquidity risk. Risks are monitored and controlled through strong oversight and independent control and support functions across the business.

Senior management is responsible and accountable for managing liquidity risks within prescribed limits that are set by the Board and are overseen by the Board Risk Committee.

Notes to the Financial Statements (continued)

Note 26 – Financial Risk Management (continued)

Liquidity Risk (continued)

The following table details the Company's financial liabilities and assets by contractual maturity including interest that was accrued where the Company is entitled to repay the liability before its maturity. Other financial investments are presented at their fair value as this is consistent with the values used in the liquidity risk management of these instruments. The table excludes insurance liability cash flows and reinsurance asset cash flows which are included in note 18.

	31 December 2014			
	Less than 1 year £000s	1 to 5 years £000s	Over 5 years £000s	Total £000s
Financial Assets				
Financial investments	959,529	2,778,085	14,601,052	18,338,666
Accrued income and prepayments	95,588	-	-	95,588
Receivables	326,364	-	-	326,364
Cash and cash equivalents	86,631	-	-	86,631
	1,468,112	2,778,085	14,601,052	18,847,249
Financial Liabilities				
Payables and financial liabilities	1,487,179	1,379,037	6,448,236	9,314,452
Borrowings	-	-	100,000	100,000
Deferred tax liabilities	-	2,690	-	2,690
Accruals and deferred income	31,300	-	-	31,300
	1,518,479	1,381,727	6,548,236	9,448,442
Net	(50,367)	1,396,358	8,052,816	9,398,807

Notes to the Financial Statements (continued)

Note 26 – Financial Risk Management (continued)

Liquidity Risk (continued)

	31 December 2013			
	Less than 1 year £000s	1 to 5 years £000s	Over 5 years £000s	Total £000s
Financial Assets				
Financial investments	754,283	1,531,832	9,014,734	11,300,849
Accrued income and prepayments	77,863	-	-	77,863
Receivables	70,383	-	-	70,383
Cash and cash equivalents	89,983	-	-	89,983
	992,512	1,531,832	9,014,734	11,539,078
Financial Liabilities				
Payables and financial liabilities	565,631	591,837	2,899,817	4,057,285
Borrowings	-	-	100,000	100,000
Deferred tax liabilities	-	2,914	-	2,914
Accruals and deferred income	5,123	3,814	10,498	19,435
	570,754	598,565	3,010,315	4,179,634
Net	421,758	933,267	6,004,419	7,359,444

Collateralised Agreements

Assets are transferred under repurchase and securities lending agreements with other financial institutions. The nature and carrying amounts of the assets (all carried at fair value) subject to repurchase and securities lending.

	31 December 2014		31 December 2013	
	Asset £000s	Related Liability £000s	Asset £000s	Related Liability £000s
Government and agency obligations	2,273,450	1,973,732	496,746	480,190
Corporate debt	56,093	48,698	1,181,310	800,879
	2,329,543	2,022,430	1,678,056	1,281,069

As the substance of these transactions is secured borrowings and repurchase agreements the asset collateral continues to be recognised in full and the related liability reflecting the Company's obligations to repurchase the transferred assets at a future date is recognised in other liabilities. The Company remains exposed to interest rate risk and credit risk on these pledged instruments. The counterparty's recourse is not limited to the transferred assets.

The net exposures to certain OTC derivatives are collateralised through cash. As at 31st December 2014, the total cash collateral received was £1,035.6m (2013: £264.3m). Other OTC contracts are collateralised with fixed income securities which are not recognised on the balance sheet of the Company.

Notes to the Financial Statements (continued)

Note 27 – Capital Management

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

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

As at 31st December 2014 the Company had sufficient capital available to meet its regulatory capital requirements. The Company holds both debt and equity to optimise its capital structure and improve shareholder return.

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

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

The capital held within the shareholders' fund is generally available to meet any requirements. It remains the intention of management to ensure that there is adequate capital to exceed the Company's regulatory requirements.

Notes to the Financial Statements (continued)

Note 27 – Capital Management (continued)

Total available capital resources at 31st December 2014 are £970.9m (2013:£654.1m) of which:

At 31 December 2014	Long Term Fund £000s	Shareholder's Funds £000s	Total £000s
Shareholders' funds outside long term fund	-	385,715	385,715
Shareholders' funds held in long term fund	328,162	-	328,162
Total shareholder's funds	328,162	385,715	713,877
Adjustments onto regulatory basis	(241,991)	498,984	256,993
Total Available Capital Resources	86,171	884,699	970,870

At 31 December 2013	Long Term Fund £000s	Shareholder's Funds £000s	Total £000s
Shareholders' funds outside long term fund	-	277,785	277,785
Shareholders' funds held in long term fund	291,678	-	291,678
Total shareholder's funds	291,678	277,785	569,463
Adjustments onto regulatory basis	7,862	76,803	84,665
Total Available Capital Resources	299,540	354,588	654,128

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

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

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

At 31st December 2014 the available capital was 204% (2013: 229%) of the capital requirement of £477.1m (2013: £285.5m).

Notes to the Financial Statements (continued)

Note 27 – Capital Management (continued)

Movements in Capital Resources

	31 December 2014 £000s	31 December 2013 £000s
Opening Balance	**654,128**	**790,004**
New business	60,800	56,745
Management of in force book	32,693	150,878
Expenses	(46,113)	(39,729)
Demographic experience variance	11,703	10,200
Other	421	(791)
Operating Surplus	**713,632**	**967,307**
Economic profit	(9,078)	13,200
Non recurring expenses	(9,074)	(247)
Financing costs	(6,225)	(4,999)
Tax	(6,821)	(40,133)
Capital in related undertaking	172,181	-
Repayment of capital instrument	-	(132,500)
Issue of ordinary share	116,255	132,500
Dividend payment	-	(281,000)
Closing Balance	**970,870**	**654,128**

Capital Resource Sensitivities

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 Company seeks to mitigate these risks through the use of derivative hedges and reinsurance. Management monitor these assumptions and market conditions and would take appropriate action if relevant.

Notes to the Financial Statements (continued)

Note 27 – Capital Management (continued)

Capital Resource Sensitivities (continued)

The Company is exposed to changes in market conditions but controls its exposure to the various elements of this risk as follows:

- **Interest and Inflation Rates Risk:** A portfolio of interest and inflation swaps is structured such that each basis point movement in interest rates or inflation will change the value of assets and liabilities by a similar amount.

- **Credit Risk:** As well as holding government bonds, government guaranteed bonds, supranational bonds and regulated covered bonds, the Company also holds corporate bonds with matching collateralised credit default swaps or total return swaps. Given this approach, the Company therefore has a reduced risk of reductions in regulatory capital resources caused by defaults on bonds. During 2014 the Company has continued to increase its exposure to other assets including social housing and infrastructure assets. The Company bears minimal credit risk under these arrangements unless the cash advanced to the counterparty exceeds the value of the collateral received.

- **Currency Risk:** The Company holds some Euro and US Dollar denominated corporate bonds. All foreign currency coupon and principal receipts are swapped for sterling cash flows thereby reducing the risk of volatility in regulatory capital resources due to exchange rate movements.

Management monitors markets conditions and emerging longevity experience on a regular basis. As these conditions change, management will take remedial action such as adjustment of hedging strategies if appropriate.

Note 28 – Related Parties Disclosures

Ultimate Holding Company

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

Related Party Transactions

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

Notes to the Financial Statements (continued)

Note 28 – Related Parties Disclosures (continued)

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

	31 December 2014 £000s	31 December 2013 £000s
Statement of Comprehensive Income		
Realised/Unrealised losses on financial assets and liabilities	(563,639)	(268,706)
Interest income on bank deposits	39	50
Income from money market securities held in collective investment schemes	2,006	2,144
Interest on collateralised agreements and financing	31,786	48,388
Service fee charges	(3,979)	(15,135)
Investment expenses and charges	(7,077)	(6,159)
Statement of Financial Position		
Derivative financial assets and liabilities	(1,119,032)	(421,053)
Collateralised agreements and financing	1,440,880	1,089,779
Collective investments schemes	610,469	407,456
Accrued interest and prepayments	189	-
Amounts payable to related party	(890)	(211,146)
Dividends paid	-	(281,000)

During the year £4m (2013: £4m) of bonus payments were borne by a fellow participating interest, as part of a long term incentive arrangement. The Company will not be charged for this expense.

The notional amount of derivatives contracts outstanding with related parties as at 31st December 2014 was £40,964.3m (2013: £52,078.2m).

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

Notes to the Financial Statements (continued)

Note 28 – Related Parties Disclosures (continued)

The table below represents transactions between RLL and its subsidiary RAL, its parent RHUK and other group company RPML.

Transactions with Rothesay Pensions Management Limited

	31 December 2014 £000s	31December 2013 £000s
Statement of Comprehensive Income		
Cost transfer	(25,627)	(13,563)
Statement of Financial Position		
Other payables	13,090	7,078

Transactions with Rothesay Assurance Limited

	31 December 2014 £000s	31December 2013 £000s
Statement of Comprehensive Income		
Interest income on bank deposits	12	-
Investment management charges	(26)	-
Cost transfer	2,186	-
Statement of Financial Position		
Investment in subsidiary undertaking	421,381	-
Derivative financial instruments	116,223	-
Other receivables	201	-
Other payables	(120,160)	-

Transactions with Rothesay Holdco UK Limited

	31 December 2014 £000s	31December 2013 £000s
Statement of Comprehensive Income		
Interest on collateralised agreements and financing	60	-
Cost transfer	284	-
Statement of Financial Position		
Other receivables	5,015	-
Capital	383,754	267,500

Notes to the Financial Statements (continued)

Note 29 – Subsidiary Undertakings

Subsidiary Undertakings

The Financial Statements include the Financial Statements of RLL and the subsidiary listed in the following table:

Group Undertakings	Country of Incorporation	Primary business operation	Value at Cost £'000	2014 % equity interest	2013 % equity interest
Rothesay Assurance Limited (Formerly known as MetLife Assurance Limited)	UK	Services Company	421,381	100%	-

The above subsidiary undertaking is registered in England and Wales.

On 16th May 2014, RLL acquired MetLife Assurance Limited, the UK bulk annuity business of MetLife Inc. MetLife Assurance Limited is now wholly owned by RLL. MetLife Assurance Limited was renamed Rothesay Assurance Limited on 23rd June 2014.

Note 30 – Financial Commitments and Contingencies

Operating lease rentals commitments arise where a 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:

	31 December 2014 £000s	31 December 2013 £000s
Not later than one year	420	-
Later than one year and no later than five years	3,358	-
Later than five years	3,779	-
Total Minimum Lease Payments	7,557	-

Other Commitments

During the year the Company executed transactions to purchase partly funded bonds. The Company expects to pay a further £197m within the next 5 years (2013: £123m), £nil of this being due within 12 months of the financial reporting date (2013: £25m).

	31 December 2014 £000s	31 December 2013 £000s
Not later than one year	-	25,000
Later than one year and no later than five years	197,000	49,000
Later than five years	-	49,000
Total Other Commitments	197,000	123,000

Notes to the Financial Statements (continued)

Note 31 – Post Balance Sheet Event

On 25th March 2015, the Directors of RAL recommended the payment of an interim dividend to the Company of £180m in relation to the year ending 31st December 2015.

Note 32 – International Financial Reporting Standards ('IFRS') Transition

A1.1. Accounting Policies – Basis of Preparation

For all periods up to and including the year ended 31st December 2013, the Company prepared its Financial Statements in accordance with UK GAAP. These Financial Statements, for the year ended 31st December 2014, are the first the Company has prepared in accordance with IFRS.

Accordingly, the Company has prepared Financial Statements which comply with IFRS applicable for periods beginning on or after 1st January 2014 as described in the accounting policies. In preparing these Financial Statements, the Company's opening Statement of Financial Position was prepared as at 1st January 2013, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Company in restating its UK GAAP statement of financial position as at 1st January 2013 and its previously published UK GAAP Financial Statements for the year ended 31stDecember 2013. All adjustments are reclassifications of balances rather than valuation differences.

A1.2. Notes to the Financial Statements – First-Time Adoption of IFRS *IFRS 1.22, 23*

IFRS has been applied retrospectively, except for certain optional and mandatory exemptions from full retrospective application, as provided for by IFRS 1 (Revised 2009) First–Time Adoption of IFRSs, as detailed below.

Designation of Financial Assets and Financial Liabilities *IFRS 1. D19*

At the date of transition, the Company chose to designate according to the IFRS designation criteria, all of its existing financial assets as 'at fair value through profit or loss'.

Notes to the Financial Statements (continued)

Note 32 – IFRS Transition (continued)

Estimates

At the date of transition, the Company's estimates under IFRS are consistent with estimates previously made under UK GAAP.

IFRS Classification Changes

The principal classification changes at 1st January 2014 can be seen in the table below. They have no effect on equity.

1st January 2014	UK GAAP £000s	Adjustments £000s	IFRS £000s
Assets			
Other Financial investments	3,093,221	8,207,628	11,300,849
Assets held to cover linked liabilities	5,360,587	(5,360,587)	-
Reinsurers share of technical provisions	164,325	-	164,325
Accrued interest and prepayments	77,863	-	77,863
Other receivables	70,383	-	70,383
Cash at bank and in hand	88,983	-	88,983
Total Assets	**8,855,362**	**2,847,041**	**11,702,403**
Equity and Liabilities			
Share capital	155,121	-	155,121
Share premium	112,379	-	112,379
Retained earnings	301,963	-	301,963
Total Equity	**569,463**	-	**569,463**
Liabilities			
Long term business provision /Insurance contract liabilities	1,439,582	5,508,825	6,948,407
Claims outstanding	4,899	-	4,899
Technical provision for linked liabilities	5,508,825	(5,508,825)	-
Borrowings	100,000	-	100,000
Other liabilities	1,210,244	2,847,041	4,057,285
Deferred tax liabilities	2,914	-	2,914
Accruals and deferred income	19,435	-	19,435
Total Equity and Liabilities	**8,855,362**	**2,847,041**	**11,702,403**

Notes to the Financial Statements (continued)

Note 32 – IFRS Transition (continued)

IFRS Classification Changes (continued)

1st January 2014	UK GAAP £000s	Adjustments £000s	IFRS £000s
Income			
Gross premiums written	1,628,059	-	1,628,059
Premiums ceded to reinsurers	(361,208)	-	(361,208)
Net Premiums Written	**1,266,851**	-	**1,266,851**
Investment income	209,575	(309,550)	(99,975)
Total Revenue, Net of Reinsurance	**1,476,426**	**(309,550)**	**1,166,876**
Gross claims and benefits paid	(576,207)	-	(576,207)
Outward reinsurers share of claims paid	338,260	-	338,260
Change in the provision for claims outstanding	3,520	-	3,520
Claims Incurred, Net of Reinsurance	**(234,427)**	-	**(234,427)**
Gross change in long term business provision	230,661	(230,661)	-
Gross change in insurance contract liabilities	-	(624,762)	(624,762)
Reinsurers share of change in long term business provisions	(76,282)	-	(76,282)
Changes in technical provisions, net of reinsurance	(855,423)	855,423	-
Change in Other Technical Provisions, Net of Reinsurance	**(701,044)**	-	**(701,044)**
Net operating expenses	(39,976)	-	(39,976)
Finance costs	(102,343)	95,310	(7,033)
Unrealised losses on investments	(210,841)	210,841	-
Balance on Long Term Business Account Before Tax	**187,795**	**(3,399)**	**184,396**
Investment income	1,600	(1,600)	-
Finance costs	(4,999)	4,999	-
Profit on Ordinary Activities Before Tax	**184,396**	-	**184,396**
Tax on profit on ordinary activities	(41,217)	-	(41,217)
Profit on Ordinary Activities After Tax	**143,179**	-	**143,179**

Measurement Changes – Current and Deferred Tax

Under UK GAAP, provision is made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the Financial Statements and their recognition in the income tax return. Under IAS 12 *Income Taxes* deferred tax is provided for temporary differences between the tax base of an asset or liability and the carrying value for financial reporting purposes at the period end.

No comparative Financial Statements have been prepared as there are no measurement adjustments between the UK GAAP and IFRS Financial Statements. The Statement of Financial Position as at 1st January 2013 is shown within the Statement of Financial Position within the primary Financial Statements.

Company Number: 06127279

ROTHESAY LIFE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2013

STRATEGIC REPORT

The directors present their annual report and the audited financial statements for Rothesay Life Limited, registered number 6127279, (the 'company' or 'RLL') for the year ended 31 December 2013. Comparative information has been presented for the year ended 31 December 2012.

1. Principal activities

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

2. Review of the business

Corporate Organisation

RLL operates as an independent standalone business with over 65 full time professionals as at 31 December 2013.

The company was set up in 2007 as a wholly-owned subsidiary of The Goldman Sachs Group, Inc. ('Goldman Sachs'). In December 2013, a group reorganisation was completed which resulted in the company becoming a wholly-owned subsidiary of a newly-formed holding company domiciled in the UK, Rothesay Holdco UK Limited ('RLUK').

In October 2013, the company announced that funds managed or advised by The Blackstone Group L.P., GIC Private Limited (formerly known as Government of Singapore Investment Corporation) and MassMutual Financial Group would acquire 64% of the shares in RLUK from Goldman Sachs. The transaction was approved on 18 December 2013 by the PRA and FCA. The specific shareholdings of each ultimate shareholder in RLUK as at 31 December 2013 are outlined below:

- The Goldman Sachs Group Inc.: 36.0%
- The Blackstone Group L.P.: 28.5%
- GIC Private Limited (formerly known as Government of Singapore Investment Corporation): 28.5%
- MassMutual Financial Group: 7.0%

In connection with this transaction, a group undertaking, Rothesay Pensions Management Limited ('RPML') has transitioned a number of staff to become full time employees who were previously employed by Goldman Sachs to support the company.

Background

The company is authorised to write long term insurance business covering the specific risks associated with its underlying clients' pension obligations, and seeks to generate stable shareholder returns whilst providing certainty and security of pension payments to policyholders.

The primary risks transferred to the company include interest rate risk, inflation rate risk, investment risk and longevity risk. Given the long term nature of the business, not properly managing these risks would result in both greater risk-based capital requirements and increased capital volatility. In turn, this creates uncertainty for both the level of protection afforded to policyholders as well as the long term returns realised by shareholders.

The company believes that both policyholder and shareholder interests are aligned in the company being managed under a significantly de-risked investment and risk management policy.

STRATEGIC REPORT (continued)

2. Review of the business (continued)

Background (continued)

This is accomplished by:

- entering into longevity reinsurance to create certainty for the future cash flows required to be paid;
- locking in the additional returns available on long term liability matching investments; and
- mitigating credit risk through negotiating enhanced structural security, seniority, protection and explicit/implied sovereign support, and therefore minimising potential losses in the event of default.

Residual risks and capital position are then monitored daily, so that the company can dynamically manage its financial position in changing market conditions.

By reducing the risks inherent in the in-force portfolio, the company is then also able to focus key resources and a stable surplus capital base towards insuring more pensions and pursuing new growth opportunities. This is accretive to shareholder returns and helps the business achieve greater operational economies of scale. The stability of the capital base backing the company's in-force business also enhances the long term protection of policyholders.

Business Summary

The company made a pre-tax profit in the year ended 31 December 2013 of £184.4m (year ended 31 December 2012: £266.0m). During 2013, the company generated gross written premiums of £1,628.1m (31 December 2012: £1,282.4m). The company executed four bulk annuity transactions and increased the coverage under a previous transaction.

The profit and loss account for the year is set out on pages 11 and 12. The company has reported total assets of £8,855.4m (31 December 2012: £7,843.9m). The increase of £1,011.5m was primarily driven by the new business premiums received through the year.

The company now has over 117,990 underlying insured policies (31 December 2012: 111,784). RLL makes payments of £576.2m to policyholders annually (year ended 31 December 2012: £472.3m).

Business Environment

In recent months, financial markets have generally improved resulting in an increasing trend for equity and property markets, a tightening of credit spreads and an increase in interest rates. All these factors contribute to increase the affordability of purchasing bulk annuities as clients' funding level improves. This is demonstrated by the completion of approximately £7bn of bulk annuity transactions in 2013, the most transacted over the past 5 years.

The Board and management believe that the market will continue to mature and the volumes of bulk annuity transactions completed each year will continue to rise as the benefits of risk-transfer for pension schemes and annuity providers acquiring protection increases.

Strategy

RLL continues to see substantial opportunities for profitable growth in the UK bulk annuity sector, which is underpinned by key structural elements such as an ageing population and increasing desire on the part of corporate pension schemes to reduce and eliminate risks associated with their legacy defined benefit pension liabilities. The company will monitor opportunities overseas to supplement the growth potential in the UK where appropriate, with markets such as Spain, Scandinavia, The Netherlands and elsewhere in Continental Europe showing encouraging signs of developing an understanding and desire to execute bulk annuity transactions.

STRATEGIC REPORT (continued)

2. Review of the business (continued)

Strategy (continued)

Develop the business through sustainable organic and inorganic growth

RLL will continue to pursue new transactions that meet our target return objectives by structuring secure and innovative solutions for our customers. The objective over the next two to three years is to grow the business to a scale, such that the company would be able to underwrite sustainable levels of new business whilst returning capital to investors through dividends.

RLL will continue to ensure it provides a very high level of security to its policyholders by sourcing profitable new business, managing assets to provide attractive risk and capital-adjusted returns and deploying a comprehensive risk and capital management framework to protect against market strains.

Service excellence

RLL has been distinguished by its quality of client service, both with trustees, corporate sponsors and policyholders. RLL continues to uphold a high standard of relationship management, operational support and administration.

RLL has been resourced through hiring some of the best talent in the industry and the company will continue to complement the internal management team with best-of-breed advisers and service providers.

Risk Management

The company adopts a robust approach to hedging and investment which necessarily involves:

- A daily mark-to-market valuation approach (to the extent visible trading prices allow) for all assets and liabilities. For positions where direct market data is not available, models are utilised to interpolate or extrapolate to their fair value. Such models and their output are reviewed independently by the control function.
- A reserving approach for un-hedged risks which aims to ensure that reserves calibrate to the market price of hedging those risks.
- A risk limit framework which ensures the stability of the earnings and solvency position of the business. Limits exist in relation to market, counterparty, demographic and longevity risks and are sized with reference to the overall Rothesay Life Limited risk appetite and capital position.

Asset investment decisions are undertaken with the primary objective of ensuring the projected returns that can be generated are secure and sustainable for the term of the policyholder reserves. These assets typically seek to minimise potential losses from default through the use of physical or structural security, or through implied or explicit sovereign support. In some instances credit hedging instruments are also utilised.

As at year end, the asset portfolio consisted primarily of UK sovereign bonds, triparty repo facilities, bilateral funding facilities, social housing bonds, covered bonds and UK infrastructure debt.

Wherever possible, a market consistent reserving approach is adopted. Reserves held against un-hedged risks are calibrated to market observed bid/offer charges for hedging instruments. This enables management to dynamically risk hedge the portfolio based on early market indicators, without reducing expected investment returns.

STRATEGIC REPORT (continued)

2. Review of the business (continued)

Risk Management (continued)

The company seeks to monitor and control exposure through a robust risk and control framework encompassing the management of both in-force business and new business underwriting within a holistic risk control framework:

- Close co-ordination of underwriting, reinsurance, investment and risk hedging functions ensures risk management is central to all aspects of the business, and that new business pricing reflects latest market conditions and hedging costs as well as comprehensive liability analysis.

- The integrated system infrastructure, capturing centrally all assets and liabilities, provides RLL with the capability of daily risk monitoring and reporting at both the portfolio and the individual transaction level.

- An independent risk and capital management function provides continuous monitoring of risk exposures and daily attribution of profit and loss, providing timely information to management and enabling dynamic risk based decision making.

The day-to-day risk management framework is overseen by the Working Level Risk Committee, consisting of relevant senior managers working within a delegated risk management framework. This committee reviews all material new investment, hedging or liability transactions.

The Board has overall responsibility for the management of the exposure to risks, and is supported through formal sub-committees, being the Audit Committee and the Board Risk Committee.

- The memberships of these committees are composed of non-executive and executive directors.

- These Committees ensure that the management of the business is conducted within the delegated risk framework from the main Board.

There are a number of principal risks and uncertainties that could have a material impact on the company's long term performance, and could cause actual results to differ from expected or historical results. These are considered in more detail below.

While the company employs a broad and diversified set of risk monitoring and risk mitigation techniques as described previously, those techniques and the judgments that accompany their application cannot anticipate every economic and financial scenario or the specifics and timing of such outcomes. Please refer to the financial risk management section in note 23 to the financial statements for additional detail.

Principal Risks and Uncertainties

The company faces a variety of risks that are substantial and inherent in its business including longevity, market, liquidity, counterparty default, operational, legal and regulatory risks. Further detail on each of these risks and how the company manages them are provided in note 23. The following is a summary of some of the more important factors that could affect the performance of the business.

Longevity

A principal risk to which the company is exposed is the longevity risk inherent in whole of life annuities, in particular the risk that actual life expectancy differs from that provisioned. RLL implements rigorous underwriting practices to ensure all longevity risks associated with new liabilities are appropriately evaluated.

Rothesay Life Limited also actively manages the risk by executing reinsurance contracts which substantially match the terms of the underlying liabilities, and are collateralised to mitigate RLL's risk of counterparty exposure to the reinsurers in the event of their default.

STRATEGIC REPORT (continued)

2. Review of the business (continued)

Longevity (continued)

Rothesay Life Limited's discipline in underwriting longevity risk allows it to anticipate pricing levels of reinsurers. Regular communication around pricing levels and execution of reinsurance contracts provides current market-implied levels at which the underlying risk can be reinsured, and ensures RLL keeps up-to-date with the latest developments in the analysis and pricing of longevity risk.

Counterparty credit quality

The company is exposed to the risk that investments in third parties, securities or other assets may default on their obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. Deterioration in the credit quality of third parties whose securities or obligations are held by the company could result in losses and/or adversely affect the company's ability to use those securities or obligations for liquidity purposes.

The company's exposure to counterparty credit risk is significantly reduced by entering into agreements that enable the company to obtain collateral from counterparties on an upfront or contingent basis and/or by transferring the credit risk using credit derivatives. Default rates, downgrades and disputes with counterparties as to the valuation of collateral increase significantly in times of market stress and illiquidity. This risk is managed through careful negotiation of contractual rights and prudent default provisions.

Economic and market conditions

The company can be materially affected by conditions in the global financial markets and economic conditions generally. Volatility in interest and inflation rates could materially affect the cost of meeting insurance obligations, but this is significantly reduced through the use of collateralised derivative hedges.

Liquidity

Liquidity is essential to the business. The company's liquidity could be impaired by unforeseen outflows of cash or collateral. This situation may arise due to circumstances that the company may be unable to control, such as general market disruption or an operational problem that affects third parties or the company.

To mitigate liquidity risk the company maintains significant surplus liquidity, comprising investments such as cash, collective investment schemes, government bonds, government guaranteed bonds, supranational bonds and regulated covered bonds. The minimum size of the Liquid Asset Buffer is set equal to the Maximum Liquidity Outflow in extremely adverse stress scenarios. The Liquid Asset Buffer includes cash held by agent banks or in collective investment schemes, government bonds, supranational bonds and covered bonds. Financing haircuts are applied where applicable. The most adverse scenario considered at year end was a 4% increase in GBP interest rates.

Regulatory risk

The European Union is in the process of developing and implementing a new regime in relation to solvency requirements and other matters, affecting the financial reserving and reporting of insurers and reinsurers within each Member State ('Solvency II'). It is intended that the new regime for insurers and reinsurers domiciled in the European Union will apply more consistent risk sensitive standards to capital requirements, bringing European insurance regulation more closely in line with banking and securities regulation with a view to avoiding regulatory arbitrage, aligning regulatory capital with economic capital, and enhancing public disclosure and transparency.

Solvency II represents a fundamental review to the way in which insurers will calculate their required capital and has an implementation date of 1 January 2016. However, there continues to be significant uncertainty as to the content of the detailed implementation guidance. The company continues to actively monitor these discussions and assess the impact of developments on its future capital position.

STRATEGIC REPORT (continued)

2. Review of the business (continued)

Key Performance Indicators

During the year, the Board frequently monitored the progress of the company by reference to a range of key performance indicators which are deemed to be appropriate and relevant for the company at its current point of development. These include:

	31 December 2013 £'000	31 December 2012 £'000
Gross premium revenue	1,628,059	1,282,447
Profit before tax	184,396	266,038
Financial assets	8,453,808	7,385,842
Excess Pillar 1 Regulatory Capital	368,633	544,771

The reduction in Excess Pillar 1 Regulatory Capital is due to aggregate interim dividends paid during the year of £281m. Please see note 19 for further details.

Over time, as the business continues to grow management will determine whether the current measures need to be supplemented with further key performance indicators.

Future Outlook

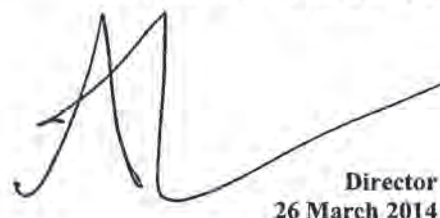
The directors consider that the year end financial position of the company was satisfactory and no significant change in the company's principal business activity is expected.

The directors expect additional growth through potential acquisition opportunities. The company has already established a precedent through the successful integration of the Paternoster business which it acquired in January 2011 and will look at further opportunities in the sector.

3. Date of authorisation of issue

The financial statements were authorised for issue by the Board of Directors on 26 March 2014.

BY ORDER OF THE BOARD



Director
26 March 2014

REPORT OF THE DIRECTORS

The directors present their annual report for the year ended 31 December 2013.

1. Post balance sheet events

On 18 February 2014, the company announced it had entered into an agreement to acquire 100% of the shares of MetLife Assurance Limited, the UK bulk annuity business of MetLife Inc, consistent with the company's strategy to supplement organic growth. The company has executed definitive legal documentation with MetLife Inc. regarding the proposed purchase and has submitted a request for change in control to be approved by the PRA and FCA. The PRA and FCA decision is expected to be received during the second quarter of 2014.

Management have acknowledged the proposed pensions reforms announced by the government as part of the 2013-2014 Budget but do not anticipate a material impact on the company given the majority of changes proposed relate to defined contribution pension schemes. The company's business is concentrated on transactions with defined benefit pension schemes and in force annuity blocks.

2. Dividends

The directors approved the payment of aggregate interim dividends during the year ended 31 December 2013 of £281m. The directors do not recommend a final ordinary dividend in respect of the year (year ended 31 December 2012: £nil). Please refer to note 19 to the financial statements for additional detail.

3. Exchange rate

The US Dollar / Sterling exchange rate at the balance sheet date was £ / US$ 1.6567 (31 December 2012: £ / US$ 1.6244). The average rate for the year was £ / US$ 1.5722 (year ended 31 December 2012: £ / US$ 1.5925).

4. Directors

The directors of the company who served throughout the year and to the date of this report, except where noted, were:

Name	Appointed	Resigned
S. Q. Abbas	18 March 2014	
T. J. Breedon	18 March 2014	
M. T. Corbett	21 June 2013	19 December 2013
R. A. De Beir Jarratt	18 March 2014	
A. Loudiadis		
D. McDonogh		
K. N. Pantazopoulos		19 December 2013
D. G. Paterson		
C. Pickup		
J. Rafter		19 December 2013
K. Satchell		
M. S. Sherwood		19 December 2013

No director had at the year end any interest requiring note herein.

5. Disclosure of information to auditors

In the case of each of the persons who are directors of the company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware; and

REPORT OF THE DIRECTORS (continued)

5. Disclosure of information to auditors (continued)

- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

6. Auditors

The company has passed Elective Resolutions in accordance with the Companies Act 1985 to dispense with the holding of annual general meetings, the laying of accounts and reports before general meetings and the annual reappointment of auditors. PricewaterhouseCoopers LLP will, accordingly, continue in office as auditors of the company pursuant to Section 487(2) of the Companies Act 2006 and paragraph 44 of Schedule 3 to the Companies Act 2006 (Commencement No. 3 Consequential Amendment, Transitional Provisions and Savings) Order 2007.

7. Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable laws and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

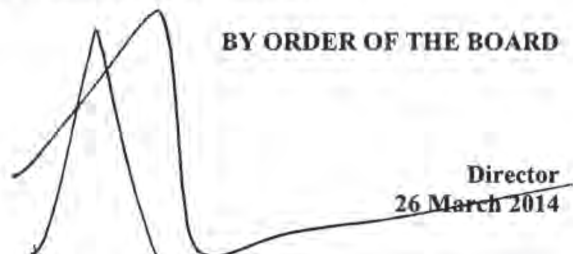
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

8. Date of authorisation of issue

The financial statements were authorised for issue by the Board of Directors on 26 March 2014.

BY ORDER OF THE BOARD



Director
26 March 2014

Independent Auditors' report to the members of ROTHESAY LIFE LIMITED

Report on the financial statements

Our Opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Rothesay Life Limited, comprise:

- the balance sheet as at 31 December 2013;
- the profit and loss account for the year then ended; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Directors' Report and Strategic Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies House Act 2006

In our opinion the information given in the Directors' Report and Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Other matters on which we are required to report by exception (continued)

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

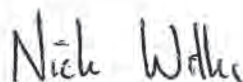
Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Nick Wilks (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 March 2014

(a) The maintenance and integrity of the Rothesay Life Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2013

TECHNICAL ACCOUNT - LONG TERM BUSINESS	Note	Year Ended 31 December 2013 £'000	Year Ended 31 December 2012 £'000
Gross premiums written	3	1,628,059	1,282,447
Outward reinsurance premiums		(361,208)	(314,507)
Earned premiums, net of reinsurance		**1,266,851**	**967,940**
Investment income	4	209,575	310,539
Unrealised gains on investments	4	-	361,257
Total revenue, net of reinsurance		**1,476,426**	**1,639,736**
Gross claims paid		(576,207)	(472,314)
Outward reinsurers' share of claims paid		338,260	290,621
Change in the provision for claims outstanding		3,520	2,570
Claims incurred, net of reinsurance		**(234,427)**	**(179,123)**
Gross change in long term business provisions	14	230,661	(961,543)
Reinsurers' share of change in long term business provisions	15	(76,282)	(37,173)
Change in technical provisions for linked liabilities	16	(855,423)	(109,776)
Change in other technical provisions, net of reinsurance		**(701,044)**	**(1,108,492)**
Net operating expenses	5	(39,976)	(40,822)
Investment expenses and charges	4	(102,343)	(42,688)
Unrealised losses on investments	4	(210,841)	-
Tax charge on profit on ordinary activities	8(a)	(40,960)	(67,154)
Balance on the technical account - long term business		**146,835**	**201,457**

The notes on pages 14 to 45 form an integral part of these financial statements.
Independent Auditors' report – pages 9 and 10

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2013

NON TECHNICAL ACCOUNT	Note	Year Ended 31 December 2013 £'000	Year Ended 31 December 2012 £'000
Balance on the technical account – long term business		146,835	201,457
Tax attributable to the balance on the technical account - long term business		40,960	67,154
Balance on the long term business account before tax		187,795	268,611
Investment income	4	1,600	2,211
Investment expenses and charges	4	(4,999)	(4,784)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		184,396	266,038
Tax on profit on ordinary activities	8(b)	(41,217)	(66,515)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		143,179	199,523

The profit of the company is derived from continuing operations.

There is no difference between the profit on ordinary activities before taxation and the profit for the year as stated above and their historical cost equivalents.

The company has no recognised gains and losses other than those included in the profit and loss account for the year above and therefore, no separate statement of total recognised gains and losses has been presented.

The notes on pages 14 to 45 form an integral part of these financial statements.
Independent Auditors' report – pages 9 and 10

BALANCE SHEET
as at 31 December 2013

	Note	31 December 2013 £'000	31 December 2012 £'000
ASSETS			
INVESTMENTS			
Other financial investments	9(a)	3,093,221	2,932,634
ASSETS HELD TO COVER LINKED LIABILITIES	9(b)	5,360,587	4,453,208
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Long term business provision		16,087	40,413
Technical provisions for linked liabilities		148,238	200,194
	15	164,325	240,607
DEBTORS			
Debtors arising out of direct insurance operations	11	-	11,118
Other debtors	12	70,383	80,679
		70,383	91,797
OTHER ASSETS			
Deferred tax	13	-	827
Cash at bank and in hand		88,983	54,455
		88,983	55,282
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		77,245	70,009
Other prepayments		618	374
		77,863	70,383
TOTAL ASSETS		**8,855,362**	**7,843,911**
LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	20	155,121	135,000
Share premium account	21	112,379	-
Profit and loss account	21	301,963	439,784
TOTAL SHAREHOLDER FUNDS		569,463	574,784
TECHNICAL PROVISIONS			
Long term business provision	14	1,439,582	1,670,243
Claims outstanding		4,899	8,419
		1,444,481	1,678,662
TECHNICAL PROVISIONS FOR LINKED LIABILITIES	16	5,508,825	4,653,402
CREDITORS			
Borrowings	18	100,000	205,000
Other liabilities including derivatives and taxation	17	1,210,244	715,277
Deferred tax	13	2,914	-
		1,313,158	920,277
Accruals and deferred income		19,435	16,786
TOTAL LIABILITIES		**8,855,362**	**7,843,911**

The financial statements were approved by the Board of Directors on 26 March 2014 and signed on its behalf by: Addy Loudiadis
Director

The notes on pages 14 to 45 form an integral part of these financial statements.
Independent Auditors' report – pages 9 and 10
Company number: 06127279

1. ACCOUNTING POLICIES

a. Accounting convention

The financial statements have been prepared on the going concern basis, under the historical cost convention (except as explained in note 1(g) and 1(h), the accounting policies set out below, and in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('S12008/410') relating to insurance groups and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ('the ABI SORP') in December 2005 and revised in December 2006.

b. Premiums

The company writes both single and regular premium business. Single and regular premiums are recognised when they fall due and in accordance with the substance of the underlying contractual agreement.

c. Claims

Annuities and pension commencement lump sums are recognised when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the long term business provision. Death claims and all other claims are accounted for when notified.

d. Acquisition costs

The costs of acquiring new business are expensed during the financial year in which they are incurred.

e. Reinsurance

Long term business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity, investment, persistency and expenses. Such contracts are accounted for as insurance contracts provided the risk transfer is significant.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of the reinsurance company. The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of gross claims incurred during the year. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outward reinsurance premiums' when due.

f. Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest payable on financial liabilities.

Dividends on money market securities held in collective investment schemes are included as investment income on the date the units are created. Interest and expenses are accounted for on an accruals basis.

Realised gains and losses on investments carried at fair value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price.

Investment return relating to investments which are directly connected with the carrying on of long term business is initially recorded in the long term business technical account. The investment return arising in relation to all other investments is recorded in the non technical account.

1. ACCOUNTING POLICIES (continued)

g. Financial investments

Financial investments are recorded at fair value or amounts that approximate fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. the exit price. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. Fair value gains or losses are included in investment income.

The best evidence of fair value is a quoted price in an active market. If listed prices or quotations are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets, or internally developed models that primarily use, as inputs, market-based or independently sourced parameters, including but not limited to interest rates, volatilities, equity or debt prices, foreign exchange rates, credit curves and funding rates. The fair value of certain financial assets and financial liabilities require valuation adjustments for counterparty credit quality, funding risk, transfer restrictions, illiquidity and bid/offer inputs.

Cash instruments such as corporate debt securities, covered bonds, government and agency obligations and certain money market instruments are valued by verifying to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g. indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources. Valuation adjustments are typically made (i) if the cash instrument is subject to regulatory or contractual transfer restrictions and/or (ii) for other premiums and discounts that a market participant would require to arrive at fair value. Valuation adjustments are generally based on market evidence.

Certain cash instruments, including collateralised agreements and financing have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, these instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. When a pricing model is used the model is adjusted so that the model value of the cash instrument at inception equals the transaction price. Subsequently, the company uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realised on sales.

The company's derivative contracts consist of over-the-counter ('OTC') derivatives.

OTC derivatives are generally valued using market transactions and other market evidence, including market-based inputs to models, calibration to market-clearing transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g. indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Where models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of and specific risks inherent in the instrument, as well as the availability of pricing information in the market. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, model selection does not involve significant management judgment because outputs of models can be calibrated to market clearing levels.

1. ACCOUNTING POLICIES (continued)

g. Financial investments (continued)

Certain OTC derivatives are valued using models which utilise inputs that can be observed in the market, as well as unobservable inputs. Unobservable inputs typically include certain correlations as well as credit spreads, that are long-dated or derived from trading activity in inactive or less liquid markets. Subsequent to the initial valuation of such derivatives, the company updates the observable inputs to reflect observable market changes. Unobservable inputs are changed when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or dealer quotations or other empirical market data. In circumstances where the company cannot verify the model value by reference to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

h. Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount presented in the balance sheet where there is:

(i) currently a legally enforceable right to set off the recognised amounts; and

(ii) intent to settle on a net basis or to realise the asset and settle the liability simultaneously.

Where these conditions are not met financial assets and liabilities are presented on a gross basis in the balance sheet.

i. Collateralised agreements and financing

Collateralised agreements (securities purchased under agreements to resell and deposits placed as collateral for stock borrowed) and collateralised financing (securities sold under agreements to repurchase and deposits received as collateral for stock loans) are treated as collateralised financing transactions and are carried at fair value under the fair value option. The collateral can be in the form of cash or securities. Cash collateral is recognised/derecognised when received/paid. Collateral posted by the company in the form of securities is not derecognised from the balance sheet, whilst collateral received in the form of securities is not recognised on the balance sheet. If collateral received is subsequently sold, the obligation to return the collateral and the cash received are recognised on balance sheet.

j. Long term business provision

The long term business provision is determined by the company's directors using methods and assumptions recommended by the company's Actuarial Function Holder and using recognised actuarial methods with due regard to the actuarial principles laid down in Directive 2002/83/EC. It is calculated using the statutory solvency basis required by the PRA to comply with the reporting requirements under the Financial Services and Markets Act 2000 and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ('the ABI SORP') in December 2005 and revised in December 2006. The company seeks to make prudent assumptions relating to expected future experience based on current market conditions and recent experience. The assumptions used incorporate prudent margins to reflect the inherent uncertainty that actual experience may be less favourable than would otherwise be assumed.

The long term business provision has been determined using the gross premium method of valuation. It is calculated as the discounted value of projected future claim payments (as determined by reference to the contractual arrangements with the insured schemes at an individual member level) adjusted for future administration costs and investment expenses determined using prudent assumptions less the present value of future premiums (a schedule of agreed, guaranteed payments) received under the longevity swap arrangements. Projected future claim payments allow for the effects of mortality in line with the bases set out in note 14. These bases have been derived from a recent mortality experience of the pension schemes together with some recent population data as described in note 14. These bases also include a prudent allowance for future improvements in mortality. The administration costs are reflective of recent company costs and expenses budgeted for the future.

1. ACCOUNTING POLICIES (continued)

j. Long term business provision (continued)

In accordance with the PRA valuation regulations set out in the Prudential Sourcebook for Insurers, the company recognises negative mathematical reserves on the regular premium longevity risk transfer arrangements that are currently in existence with UK defined benefit occupational pension schemes subject to certain PRA restrictions on the level of such negative mathematical reserves that may be held.

In accordance with the terms of the waiver granted by the PRA in September 2008 and renewed in 2013, the interest rate used to discount future projected cash flows has been derived from the internal rate of return on the basket of assets matching the PRA Pillar 1 mathematical reserves. The company holds a number of government bonds, government guaranteed bonds, regulated covered bonds, social housing bonds, infrastructure investments and collateralised agreements to match the liabilities. For these, the asset yield has been reduced to reflect counterparty default risk whilst having regard to prudent expected recoveries from the underlying collateral 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. In addition the company holds corporate bonds where the allowance for default risk has been reflected through the use of credit default swaps.

Overall, the deduction for counterparty default risk on collateralised agreements is lower than the corresponding credit default deduction on a typical unsecured credit portfolio due to the collateralisation which provides security against default. The discount rate used to value the liabilities at the valuation date has been reduced by a prudent allowance to reflect investment expenses.

Linked liabilities include long term insurance business where pensioner liabilities are determined by reference to changes in the Retail Prices Index ('RPI'), Consumer Price Index ('CPI') or by reference to the Average Weekly Earnings measure.

k. Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more tax in the future or a right to pay less tax in the future. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

l. Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at rates of exchange ruling on the date the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Gains and losses on exchange are recognised in net operating expenses.

m. Dividends on equity instruments

Final dividends on financial instruments classified as equity are recognised in the year that they are approved by the shareholders. Interim equity dividends are recognised in the year that they are paid. These dividends are debited directly to equity.

2. REPORTING AND DISCLOSURE EXEMPTIONS

a. FRS1 (Revised 1996) 'Cash Flow Statements'

The company is a greater than 90% subsidiary of Rothesay Holdco UK Limited whose consolidated accounts include the company and are publicly available and is, therefore exempt from preparing a cash flow statement as required by FRS1 'Cash Flow Statements'.

b. FRS8 'Related Party Disclosures'

The company is a wholly-owned subsidiary of Rothesay Holdco UK Limited whose consolidated accounts include the company and are publicly available. As a result, under the terms of paragraph 3(c) of FRS8 'Related Party Disclosures', the company is exempt from disclosing transactions with companies also wholly-owned within the group.

3. SEGMENTAL REPORTING

In the opinion of the directors the company operates in a single business segment, being that of long term business. Gross premiums written is wholly made up of direct business written in the UK. No inward reinsurance business has been written. During the year £1,371.9m of single premiums relate to new business (year ended 31 December 2012: £1,025.7m).

	Regular premiums		Single premiums	
	Year Ended 31 December 2013 £'000	Year Ended 31 December 2012 £'000	Year Ended 31 December 2013 £'000	Year Ended 31 December 2012 £'000
Group pension bulk annuities	255,224	255,944	1,372,835	1,026,503
Total gross premiums written	**255,224**	**255,944**	**1,372,835**	**1,026,503**

The reinsurance balance amounted to a debit to the long term business technical account at 31 December 2013 of £99.2m (31 December 2012: £61.1m).

4. INVESTMENT RETURN

	Long term business technical account		Non technical account	
	Year Ended 31 December 2013 £'000	Year Ended 31 December 2012 £'000	Year Ended 31 December 2013 £'000	Year Ended 31 December 2012 £'000
Investment income				
Interest income on bonds	117,917	115,102	-	-
Income from money market securities held in collective investments schemes	666	2,640	1,478	2,211
Interest on collateralised agreements and financing	49,929	52,354	-	-
Interest income on bank deposits	3,857	4,758	122	-
Net gains on the realisation of investments	37,206	135,685	-	-
	209,575	**310,539**	**1,600**	**2,211**
Investment expenses and charges				
Interest payable on collateral	(676)	(1,194)	-	-
Interest payable on overnight loans	(66)	(1,292)	-	-
Realised losses on settlement of derivatives	(95,206)	(34,310)	-	-
Interest payable on collateralised agreements and financing	(5,103)	(449)	-	-
Interest payable on borrowings from third parties	-	-	-	(148)
Interest payable on borrowings to other group undertakings	-	(5,443)	-	(4,636)
Interest payable on borrowings from participating interest	(1,292)	-	-	-
Interest payable on borrowings from affiliate	-	-	(4,999)	-
	(102,343)	**(42,688)**	**(4,999)**	**(4,784)**
Net unrealised (losses)/gains on investments	(210,841)	361,257	-	-
Total investment return	**(103,609)**	**629,108**	**(3,399)**	**(2,573)**

All amounts relate to income from financial instruments at fair value through profit and loss.

5. NET OPERATING EXPENSES

	Year Ended 31 December 2013 £'000	Year Ended 31 December 2012 £'000
Acquisition costs	36,216	36,663
Administrative expenses	3,760	4,159
	39,976	**40,822**

Auditors' remuneration fees for the audit of the financial statements pursuant to legislation of £308,050 and other services pursuant to such legislation of £62,000 (year ended 31 December 2012: £238,000 and £60,000 respectively) are included as part of administrative expenses above.

6. STAFF COSTS

All persons involved in the company's operations are employed by a group undertaking, Rothesay Pensions Management Limited ('RPML'). The charges made by RPML for all the services provided (personnel and other) to the company are included in the management fees charged by group undertakings.

7. DIRECTORS' EMOLUMENTS

	Year Ended 31 December 2013 £'000	Year Ended 31 December 2012 £'000
Aggregate emoluments	639	629
Company pension contributions to money purchase schemes	4	4
	643	**633**
Highest paid director:		
Aggregate emoluments and benefits	471	430
Company pension contributions to money purchase schemes	3	3
Accrued pension at end of the year	-	-

In accordance with the Companies Act 2006, directors' emoluments above represent the proportion of total emoluments paid or payable in respect of qualifying services only. This total does not include the value of equity awards in accordance with the provisions of Schedule 5 of SI 2008/410. Directors also receive emoluments for non qualifying services which are not required to be disclosed. Two directors including the highest paid director have been granted shares in respect of long term incentive schemes. No directors have exercised options during the year.

8. TAXATION

a. Analysis of tax charge for the year:

	Long term business technical account	
	Year Ended 31 December 2013 £'000	Year Ended 31 December 2012 £'000
Current tax charge:		
UK Corporation tax	37,212	4,848
Adjustment in respect of prior years	16	(2,652)
Total Current tax	**37,228**	**2,196**
Deferred tax:		
Deferred tax	3,732	64,958
Total Deferred tax	**3,732**	**64,958**
Tax charge attributable to the long term business	**40,960**	**67,154**

b. Analysis of tax charge for the year:

	Non technical account	
	Year Ended 31 December 2013 £'000	Year Ended 31 December 2012 £'000
Tax attributable to long term business technical account	37,228	2,196
Tax attributable to non technical account	248	(630)
Total current tax charge for the year (see note 8(c))	37,476	1,566
Deferred tax:		
Tax attributable to long term business technical account	3,732	64,958
Tax attributable to non technical account	9	(9)
Total deferred tax (see note 13)	**3,741**	**64,949**
Tax charge on profit on ordinary activities	**41,217**	**66,515**

8. TAXATION (continued)

c. Factors affecting tax charge for the year:

The difference between the total current tax shown above and the amount calculated by applying the weighted average rate of UK corporation tax applicable to the company for the year of 23.25% (31 December 2012: 24.5%) to the profit on ordinary activities before tax is as follows:

	Year Ended 31 December 2013 £'000	Year Ended 31 December 2012 £'000
Profit on ordinary activities before tax	184,396	266,038
Profit on ordinary activities multiplied by standard rate in the UK 23.25% (31 December 2012: 24.5%)	42,872	65,179
Adjustments in respect of prior years	16	(2,652)
Utilisation of brought forward tax losses	(5,784)	(73,148)
Change in basis of taxation on long term business	372	12,187
Current tax charge for the year	**37,476**	**1,566**

9. OTHER FINANCIAL INVESTMENTS

a. Other financial investments

	Current value		Cost	
	31 December 2013 £'000	31 December 2012 £'000	31 December 2013 £'000	31 December 2012 £'000
Collective investment schemes	425,237	1,038,550	217,873	532,106
Government and agency obligations	2,505,789	1,532,271	2,257,550	1,442,401
Corporate debt	3,083,115	1,667,412	3,198,847	1,454,590
Derivative assets	2,407,740	1,682,043	320,988	320,987
Collateralised agreements and financing	2,878,968	3,225,984	2,953,499	2,860,316
Total financial investments	**11,300,849**	**9,146,260**	**8,948,757**	**6,610,400**
Exclude other financial investments included within assets held to cover linked liabilities	(8,207,628)	(6,213,626)	-	-
	3,093,221	**2,932,634**	**8,948,757**	**6,610,400**

Corporate debt is made up of covered bonds, social housing, infrastructure and other fixed interest securities as well as corporate bonds.

Government and agency obligations, collective investment schemes, corporate debt and collateralised agreements and financing have been designated at fair value through profit and loss in accordance with the investment strategy of the company.

9. OTHER FINANCIAL INVESTMENTS (continued)

a. Other financial investments (continued)

Included in the carrying value of total financial investments above are amounts in respect of listed investments as follows:

	31 December 2013 £'000	31 December 2012 £'000
Government and agency obligations	2,505,789	1,532,271
Corporate debt	3,083,115	1,667,412
	5,588,904	**3,199,683**

b. Assets held to cover linked liabilities

	Current value		Cost	
	31 December 2013 £'000	31 December 2012 £'000	31 December 2013 £'000	31 December 2012 £'000
Collective investment schemes	14,677	58,116	7,520	29,776
Government and agency obligations	1,941,532	1,154,414	1,749,192	1,086,706
Corporate debt	2,050,109	1,256,230	2,127,614	1,095,889
Derivative assets	1,988,038	1,314,409	265,035	250,831
Collateralised agreements and financing	2,213,272	2,430,457	2,265,281	2,154,964
Total financial investments	**8,207,628**	**6,213,626**	**6,414,642**	**4,618,166**
Include other financial instruments included within assets held to cover linked liabilities	(2,847,041)	(1,760,418)	-	-
	5,360,587	**4,453,208**	**6,414,642**	**4,618,166**

10. ASSETS ATTRIBUTABLE TO THE LONG TERM BUSINESS FUND

Total assets include £8,497m (31 December 2012: £7,509m) attributable to the long term business fund.

11. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	31 December 2013 £'000	31 December 2012 £'000
Due from policyholders	-	1,014
Prepayment of claims due to policyholders	-	9,654
Deferred premium	-	450
	-	**11,118**

12. OTHER DEBTORS

	31 December 2013 £'000	31 December 2012 £'000
Deposits pledged as collateral to third parties	56,738	59,364
Amounts due from group undertakings	-	1,984
Amounts due from participating interest	12,954	-
Tax receivable	16	3,208
Other debtors	675	16,123
	70,383	**80,679**

The net exposures to certain OTC derivatives are collateralised through cash, as per the terms of the OTC contracts. At the balance sheet date, the total cash collateral was £56.7m (31 December 2012: £59.4m). Further details of the full extent of collateral usage in the company can be found in the credit risk disclosures in note 23.

13. DEFERRED TAXATION

	31 December 2013 £'000	31 December 2012 £'000
Deferred tax balances comprise:		
Losses carried forward	-	4,515
Other insurance related items	(2,914)	(3,688)
	(2,914)	**827**

	2013 £'000	2012 £'000
The movements in the deferred tax balances were as follows:		
At 1 January	827	65,776
Impact of rate change on opening balance	464	(5,262)
Tax losses utilised	(4,577)	(68,670)
Regulatory adjustments	372	11,439
Adjustment in respect of prior years	-	(2,456)
At 31 December	**(2,914)**	**827**

14. LONG TERM BUSINESS PROVISION

	Long term business provision
	£'000
At 31 December 2012	1,670,243
Change in technical provision	(230,661)
At 31 December 2013	1,439,582

The in force long term insurance business of Rothesay Life Limited at 31 December 2013 is defined by the PRA as UK Pensions business. It comprises both non linked and linked business providing immediate annuities, deferred annuities and longevity swap arrangements. Approximately, 55% (31 December 2012: 66%) of the future payments have been reassured with several different counterparties.

The benefits payable on the immediate annuities include contingent annuities payable to dependants. The benefits payable on the deferred annuities consist of immediate annuities payable from the normal retirement date with benefits payable to dependants at other times on death of the annuitant. Various options exist that may be exercised prior to vesting that include early and late retirement, lump sum commutation, transfer values and changed spouses and dependant pensions. However, the terms offered by the company for such options are not guaranteed. Some or all benefits may be linked to the performance of the Retail Price Index (including Limited Price Indexation and Consumer Price Indexation) and some benefits are linked to Average Weekly Earnings.

During the year ended 31 December 2013, the company has written four new pension scheme buy-in contracts. It has also increased the coverage of pension under one of the previously transacted longevity swap transactions.

The long term business provision includes the discounted value of projected future claims payments. For the longevity swap arrangements, the long term business provision also allows for the discounted value of the projected premium cash flows as defined in the contracts. Additionally, the long term business provision includes an allowance for both administration expenses and investment expenses.

The principal economic and non economic assumptions adopted to determine the long term business provision are set out below.

Rothesay Life Limited makes prudent assumptions about its future experience based on market conditions at the valuation date and recent operating experience. The methodology used in setting the assumptions to calculate the long term business provision is consistent with that used in determining the assumptions adopted for the PRA Pillar 1 mathematical reserves. The assumptions used incorporate prudent margins to reduce the possibility that actual future experience may be less favourable than that assumed.

Economic Assumptions

Valuation rate of interest

The valuation rate of interest used to discount the cash flows for the purpose of the long term business provision is based on the PRA Pillar 1 regulatory requirements, as modified by a waiver granted by the PRA in September 2008 and renewed in 2013 to allow the company to reflect the yield (internal rate of return) on the combined matching assets rather than an average yield based on market value weighted durations. It is determined based on the yield obtainable on the basket of assets matching the PRA Pillar 1 mathematical reserves at 31 December 2013.

The allowance for default risk on the corporate bond portfolio has been reflected through the use of credit default swaps. In addition to corporate bonds, the company holds a number of government bonds, government guaranteed bonds, regulated covered bonds, social housing, infrastructure and collateralised agreements to match the liabilities. For these, the asset yield has been reduced to reflect counterparty default risk and the prudent expected recoveries from the underlying collateral 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.

14. LONG TERM BUSINESS PROVISION (continued)

Economic Assumptions (continued)

Valuation rate of interest (continued)

The table below shows the average yield deduction at 31 December 2013 and 31 December 2012 by asset category.

	Average yield reduction	
Asset Class	**31 December 2013**	**31 December 2012**
UK Government approved securities	0bps	0bps
Corporate bonds after allowance for covering credit default swaps	0bps	0bps
Supranational	3bps	3bps
European Sovereign	25bps	NA
Sub-Sovereign	37bps	NA
Covered bonds	12bps	15bps
Social Housing	41bps	NA
Infrastructure and other fixed interest securities	76bps	61bps
Secured financing	8bps	12bps
Overall	16bps	6bps

Overall, the deduction for counterparty default risk on such assets is generally lower than the corresponding credit default deduction on a typical unsecured credit portfolio due to the collateralisation and therefore higher recovery in the event of default, or government guarantees, which reduce the probability of default. The discount rate used to value the liabilities at the valuation date has been reduced by a prudent allowance to reflect investment expenses.

The valuation rate of interest used to discount the liability cash flows at 31 December 2013 was 4.02% p.a (31 December 2012: 3.36% p.a.). This reflects both the prescribed PRA 2.5% prudential margin applied to the risk adjusted internal rate of return obtained on the basket of matching assets and the allowance for investment expenses of three basis points p.a. (31 December 2012: two basis points p.a.).

Non-Economic Assumptions

a. Mortality

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

For this year the mortality tables used were adjusted for the majority of schemes to use a set percentage of the S1 suite of tables (S1PMA, S1PFA, S1PMA_Light, S1PFA_Light, S1PMA_Heavy or S1PFA_Heavy), a move away from using the PCMA00 and PCFA00 standard tables. The adjustments are based on an experience analysis of the company's membership data, socio demographic profiling using proprietary models, other external third party investigations and industry published data. A prudential margin is applied to reflect that future mortality experience for the schemes may differ to that observed.

14. LONG TERM BUSINESS PROVISION (continued)

Non-Economic Assumptions (continued)

a Mortality (continued)

The mortality bases have been determined separately for each pension scheme and the averages, weighted by the valuation of annuity benefits for each pension scheme, are as follows:

	31 December 2013		31 December 2012		
Product Group	**Males**	**Females**	**Males**	**Females**	**Product Code**
Deferred annuity non profit	95.7% S1PMA	95.7% S1PFA	81.7% PCMA00	81.7% PCFA00	390
Annuity non profit (CPA)	95.7% S1PMA	95.7% S1PFA	81.7% PCMA00	81.7% PCFA00	400
Index linked annuity (CPA)	95.7% S1PMA	95.7% S1PFA	81.7% PCMA00	81.7% PCFA00	905
Index linked deferred annuity	95.7% S1PMA	95.7% S1PFA	81.7% PCMA00	81.7% PCFA00	907

In addition to the change in the base tables used, which would cause a change in the relative percentages of tables applicable at the valuation date, the 31 December 2012 figures above apply no historic mortality improvements, whereas the 31 December 2013 figures apply mortality improvements from 2002. Therefore the change in percentages of table also reflects the impact of historic mortality improvements between 2002 and the valuation date on currently applicable mortality rates.

An allowance to reflect the impact of expected future mortality improvements has been made by applying improvement factors to the base rates of mortality described above. The improvement factors differ according to gender. The allowance for expected future mortality improvements at 31 December 2013 has been determined using a bespoke methodology to produce a prudent estimate of life expectancy on an individual policy basis for all lives. On an aggregate basis, this approach is equivalent to using the longevity improvements of CMI2012_M [2.25%] and CMI2012_F [1.85%] applied from 2002 (31 December 2012: CMI2011_M [2.4%] and CMI2011_F [2.0%] applied from 31 December 2012).

b. Expenses

An allowance is made for future overhead maintenance expenses following an investigation into the total costs incurred by the company during 2013 and the projected 2014 expenses. As part of this investigation, these costs have been split between acquisition and maintenance expenses. The long term business provisions include an allowance to provide for the expenses payable under the Third Party Administration agreement ('TPA') together with the long term business overhead expenses expressed as an amount per policy. An additional short term maintenance expense overrun provision has been established to provide for expected project costs.

Within these expense provisions, a suitable allowance for future expense inflation has been provided allowing for 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. (31 December 2012: 0.25% p.a.) for the overhead maintenance expenses and an addition at each duration of 1.00% p.a. (31 December 2012: 1.00% p.a.) for the TPA expenses.

c. Other assumptions

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.

14. LONG TERM BUSINESS PROVISION (continued)

Non-Economic Assumptions (continued)

c. Other assumptions (continued)

Where 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.

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

15. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	Reinsurers' share of technical provisions £'000
At 31 December 2012	240,607
Change in reinsurers' share of technical provisions	(76,282)
At 31 December 2013	**164,325**

Reinsurers' share of technical provisions are valued on a consistent basis to those contracts for which they act as a risk mitigant.

16. TECHNICAL PROVISION FOR LINKED LIABILITIES

	Technical provision for linked liabilities £'000
At 31 December 2012	4,653,402
Change in technical provisions	855,423
At 31 December 2013	**5,508,825**

Linked liabilities are valued on a consistent basis to those contracts classified as part of the long term business fund, refer to note 14.

17. OTHER LIABILITIES INCLUDING DERIVATIVES AND TAXATION

	31 December 2013 £'000	31 December 2012 £'000
Derivative financial instruments	2,266,161	1,547,874
Collateralised financing agreements	1,281,069	718,829
Exclude financial instruments included within linked assets	(2,847,041)	(1,760,418)
	700,189	506,285
Deposits received as collateral for derivatives from other group undertakings	-	121,610
Deposits received as collateral from third parties	40,168	28,783
Deposits received as collateral for derivatives from participating interest	224,110	-
Amounts due to group undertakings	6,923	57,314
Creditors arising out of direct insurance operations	-	400
Current tax payable	35,330	-
Other creditors	203,524	885
	1,210,244	**715,277**

The net exposures to certain OTC derivatives are collateralised through cash. As at 31 December 2013, the total cash collateral received was £264.3m (31 December 2012: £150.4m). Other OTC contracts are collateralised with fixed income securities which are not recognised on the balance sheet of the company.

Other creditors include a £200m payable in relation to bonds purchased with settlement dates after the year end.

18. BORROWINGS

	31 December 2013 £'000	31 December 2012 £'000
Contingent loan	-	105,000
Third party subordinated loan	-	100,000
Affiliate subordinated loan	100,000	-
	100,000	**205,000**

The amounts outstanding at 31 December 2013 consist of floating rate perpetual callable securities issued to an affiliate. Prior to the group reorganisation, this was reflected in third party subordinated loans. The securities issued are unsecured and carry deferrable interest at six month sterling LIBOR plus 425bps per annum. These securities are callable at par on 21st December 2017 and every six months thereafter. The principal constitutes regulatory capital. The repayment of the securities are subject to PRA consent.

19. DIVIDENDS PAID

	Year Ended 31 December 2013 £'000	Year Ended 31 December 2012 £'000
2013 Interim £1.81 per £1.00 ordinary share	281,000	-
	281,000	**-**

The directors do not recommend the payment of a final ordinary dividend in respect of the year.

20. SHARE CAPITAL

At 31 December 2013 and 31 December 2012 share capital comprised:

	31 December 2013		31 December 2012	
	No.	£'000	No.	£'000
Allotted, called up and fully paid				
Ordinary shares of £1.00 each	155,120,923	155,121	135,000,001	135,000
		155,121		**135,000**

On 26 March 2013 the company allotted 20,120,922 ordinary shares of £1.00 each to Rothesay Life (Cayman) Limited, the former parent of Rothesay Life Limited. The total cash consideration received was £132.5m, reflecting share premium of £112.4m (see note 21). On 18 December 2013 the share capital was transferred from Rothesay Life (Cayman) Limited to Rothesay Holdco UK Limited.

21. SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account £'000	Profit and loss account £'000
At 31 December 2012	-	439,784
Profit for the financial year	-	143,179
Ordinary dividends	-	(281,000)
Shares issued	112,379	-
At 31 December 2013	**112,379**	**301,963**

22. TOTAL SHAREHOLDER'S FUNDS

Reconciliation of movements in total shareholder's funds	31 December 2013 £'000	31 December 2012 £'000
Profit on ordinary activities after taxation	143,179	199,523
Issue of ordinary shares	132,500	-
Dividends paid on ordinary shares	(281,000)	-
Net (decrease)/increase in shareholder's funds	(5,321)	199,523
Opening shareholder's funds	574,784	375,261
Closing shareholder's funds	**569,463**	**574,784**

23. FINANCIAL RISK MANAGEMENT

The company is exposed to financial risk through its financial assets, financial liabilities and policyholder liabilities. These risks, described below, are managed in accordance with risk management policies and procedures established by the company.

23. FINANCIAL RISK MANAGEMENT (continued)

The Rothesay Life Limited Board Risk Committee assists the Board of Directors in providing leadership, direction and oversight of the company's risk appetite, risk strategy and risk management framework and of the risk aspects of major investments and corporate transactions. The Board Risk Committee has oversight of the Working Level Risk Committee, which is an executive committee and is assigned responsibility for the on-going monitoring and control of the financial and insurance risks associated with the activities of the company.

In addition to the committees, independent functions such as Compliance, Finance (including Risk Management), Legal, Internal Audit and Operations, perform risk management functions, which include assessing, monitoring, reporting and evaluating risk.

a. Market risk

Market risk is the risk of loss in the value of the company's net asset position due to changes in market prices. Financial investments are accounted for at fair value and, therefore, fluctuate on a daily basis. Categories of market risk include the following:

- interest rate risk primarily results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates and credit spreads. Each increase/decrease of 1 basis point in interest yields would result in an additional net loss/profit of £295,064 (31 December 2012: £120,975).

- inflation rate risks result from volatility of inflation rates. Each increase/decrease of 1 basis point in inflation expectation would result in an additional net profit/loss of £45,893 (31 December 2012: £252,021).

- currency rate risk results from exposures to changes in spot prices, forward prices and volatilities of currency rates. Currency exposures are calculated daily but as the exposure is immaterial, no sensitivity analysis is presented.

The company manages market risk by diversifying exposures, controlling position sizes and establishing economic hedges in related securities, derivatives and insurance liabilities.

This includes:

- accurate and timely exposure information incorporating multiple risk metrics;

- a dynamic limit setting framework; and

- constant communication between risk management and senior management.

The Rothesay Life Risk Function, which is independent of management and reports to the Chief Risk Officer, has responsibility for assessing, monitoring and managing market risk. Risks are monitored and controlled through strong oversight and independent control and support functions across the business.

Market risk limits are set by the Board Risk Committee and the Risk function monitors exposures against those.

Senior management within Rothesay Life are responsible and accountable for managing market risks daily within prescribed limits. They have in depth knowledge of their positions, of markets and the instruments available to hedge their exposures.

In addition to applying business judgement, management uses a number of quantitative tools to manage the exposure to market risk for 'other financial investments' in the financial statements. These tools include scenario analyses, stress test and other analytical tools that measure the potential effects on the net revenues of various market events, including, but not limited to, a large widening of credit spreads, as well as volatility in interest, inflation and mortality rates.

23. FINANCIAL RISK MANAGEMENT (continued)

a. Market risk (continued)

Management and the Risk function discuss market information, positions and estimated risk and loss scenarios on an ongoing basis.

b. Credit risk

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty, e.g. an OTC derivatives counterparty or an issuer of corporate debt instruments. Credit risk also comes from cash placed with banks and collateralised financing transactions, (i.e. resale and repurchase agreements) and receivables from customers and counterparties.

The Board Risk Committee establishes and reviews credit policies and parameters. Policies authorised by the Board Risk Committee prescribe the level of formal approval required for the company to assure credit exposure to a counterparty across all product areas are in line with the company's risk taking capacity and strategy, taking into account any enforceable netting provisions, collateral or other credit risk mitigants.

The Chief Credit Officer, who is independent of management and reports to the Chief Risk Officer, has responsibility for assessing, monitoring and managing credit risk. Risks are monitored and controlled through strong oversight and independent control and support functions across the business.

Senior management within Rothesay Life Limited are responsible and accountable for managing credit risks within prescribed limits. They have in depth knowledge of the credit positions, underlying models and the instruments available to hedge the credit exposures.

Effective management of credit risk requires accurate and timely information, a high level of communication and knowledge of customers, countries, industries and products. The process for managing credit risk includes:

- assessing the likelihood that a counterparty will default on its payment obligations;
- measuring and modelling the company's current and potential credit exposures and losses resulting from counterparty defaults;
- approving credit risk generated by transactions and investments;
- determining and reviewing the use of credit risk mitigants, including collateral and hedging;
- establishing counterparty risk and concentration limits;
- monitoring and communicating the utilisation of and compliance with established credit exposure limits;
- identifying, monitoring and managing potential problem credits;
- performing adequate stress tests to assess the company's vulnerability to certain scenarios and risk concentrations;
- reporting and where necessary, escalating of credit exposures to senior management, the Working Level Risk Committee, the Board Risk Committee, and possibly the Board of Directors and regulators; and
- communicating and collaborating with other independent control and support functions such as Operations, Legal and Compliance.

23. FINANCIAL RISK MANAGEMENT (continued)

b. Credit risk (continued)

The credit risk management systems capture OTC credit derivative exposure to individual counterparties and on an aggregate basis to counterparties and their subsidiaries (economic groups). These systems also provide management with comprehensive aggregate credit risk by product, credit rating, industry, country and region. This is complemented by an additional platform for the measurement, monitoring, management and reporting of non-OTC credit exposures, including gross receivable exposures.

Risk Mitigants

To reduce the credit exposures on derivatives and collateralised agreement transactions, the company enters into netting agreements with counterparties that permit it to offset receivables and payables with such counterparties by entering into agreements that enable it to obtain collateral from them on an upfront or contingent basis and/or terminate transactions if the counterparty's credit rating falls below a specified level.

When the company does not have sufficient visibility into a counterparty's financial strength or when it believes a counterparty requires support from its parent company, the company may obtain third party guarantees of the counterparty's obligations. The company also mitigates its credit risk using credit derivatives.

Credit Exposures

The company's credit exposures are described further below.

Cash and Cash Equivalents. Cash and cash equivalents include both interest bearing and non interest bearing deposits. To mitigate the risk of credit loss, the company places substantially all of its deposits with banks assigned minimum ratings in the single A rating category and central banks.

OTC Derivatives. Derivatives are reported at fair value on a gross by counterparty basis in the company's financial statements unless the company has current legal rights of set off and also intends to settle on a net basis. OTC derivatives are risk managed using the risk processes, measures and limits described above.

A waiver to INSPRU 3.2.5R(3) was granted in July 2010 and renewed in July 2013. This allowed the company to treat a derivative contract with a pension scheme as an admissible asset. The purpose of the derivative contract is to provide a hedge for a specific pension scheme against market risk. The company has hedged this risk with a derivative contract with an approved counterparty.

Collateralised Agreements. The company bears credit risk related to resale agreement and securities borrowed only to the extent that cash advanced to the counterparty exceeds the value of the collateral received. Therefore, the company's credit exposure on the transactions is significantly lower than the amounts recorded on the balance sheet (which represents fair values or contractual value before consideration of collateral received). The company also has credit exposure on repurchase agreements and securities loaned, which are liabilities on its balance sheet, to the extent that the collateral pledged for these transactions exceeds the amount of cash received.

Other Credit Exposures. The company is exposed to credit risk from its receivables from customers and counterparties. Receivables from counterparties are generally comprised of collateralised receivables related to customer securities transactions and have minimal credit risk due to the value of the collateral received. In addition, the company invests in highly rated supranational sovereign, sub-sovereign bonds, covered bonds, corporate bonds and asset-backed securities.

23. FINANCIAL RISK MANAGEMENT (continued)

b. Credit risk (continued)

The following tables represents the company's maximum exposure to credit risk both before and after taking account of the value of collateral obtained or any other credit enhancements:

	31 December 2013				
	Gross credit exposure	Netting under master netting agreements	Cash collateral	Security collateral	Net credit exposures
	£'000	£'000	£'000	£'000	£'000
Exposure to credit risk by class					
Collective investment schemes	425,237	-	-	-	425,237
Government and agency obligations	2,505,789	-	-	-	2,505,789
Corporate debt	3,083,115	-	-	-	3,083,115
Derivative assets	2,407,740	(1,374,084)	(248,470)	(785,186)	-
Collateralised agreements and financing	2,878,968	-	(15,808)	(2,863,160)	-
Exclude financial liabilities included within linked assets	(2,847,041)	1,099,268	11,980	1,350,789	(385,004)
Reinsurers' share of technical provisions	164,325	-	-	-	164,325
Other debtors	70,383	-	-	-	70,383
Prepayments and accrued income	77,863	-	-	-	77,863
Cash at bank and in hand	88,983	-	-	-	88,983
	8,855,362	**(274,816)**	**(252,298)**	**(2,297,557)**	**6,030,691**

	31 December 2012				
	Gross credit exposure	Netting under master netting agreements	Cash collateral	Security collateral	Net credit exposures
	£'000	£'000	£'000	£'000	£'000
Exposure to credit risk by class					
Collective investment schemes	1,038,550	-	-	-	1,038,550
Government and agency obligations	1,532,271	-	-	-	1,532,271
Corporate debt	1,667,412	-	-	-	1,667,412
Derivative assets	1,682,043	(1,139,756)	(148,086)	(394,201)	-
Collateralised agreements and financing	3,225,984	-	(2,308)	(3,223,676)	-
Exclude financial liabilities included within linked assets	(1,760,418)	854,817	11,868	849,053	(44,680)
Reinsurers' share of technical provisions	240,607	-	-	-	240,607
Debtors arising out of direct insurance operations	11,118	-	-	-	11,118
Other debtors	80,679	-	-	-	80,679
Prepayments and accrued income	70,383	-	-	-	70,383
Cash at bank and in hand	54,455	-	-	-	54,455
	7,843,084	**(284,939)**	**(138,526)**	**(2,768,824)**	**4,650,795**

23. FINANCIAL RISK MANAGEMENT (continued)

b. Credit risk (continued)

Netting under master netting agreements of £274.8m (31 December 2012: £284.9m) reflects the offsetting of derivative assets with liabilities for which the company has a right to set off in the event of default. Cash and security collateral have been offset to the extent there are credit exposures on the balance sheet.

The company has received total security collateral of £2,940.8m (31 December 2012: £3,295.1m) of which £2,297.6m (31 December 2012: £2,768.8m) has been applied against net exposure, leaving excess of £643.2m (31 December 2012: £526.3m). Security collateral exposes the company to further market and credit risk, this is mitigated through the use of haircuts and over collateralisation.

Credit default swaps and total return swaps (which contain credit protection) have been purchased to protect the company from default on corporate bonds. The company calls margins, receivable in cash, against this exposure and other derivative positions.

In a distressed situation the value of collateral may vary depending on credit quality and interest rates. The effectiveness of collateral as a credit risk mitigant will depend on the operational expertise of the collateral manager and the ability to seize the collateral in a distressed scenario.

The table below relating to the positions at 31 December 2013 groups gross and net credit exposure based on external ratings (lowest of Standard & Poor's, Moody's and Fitch ratings). In line with industry standards, Stability Ratings are used to rate the Money Market funds in which Rothesay Life Limited invests. The prior year table below groups gross and net credit exposure based on Goldman Sachs internal ratings.

£280.1m of the total net credit exposure relates to bonds held within negative basis packages, for which maturity matched credit default swap protection is held.

Other net credit exposures rated 'A' and 'BBB' include investments in infrastructure assets and collateralised UK social housing securities.

The movement between the exposures in the 'AAA' and 'AA' credit rating buckets between 31 December 2012 and 31 December 2013 has been driven primarily by the UK government downgrade that occurred at the beginning of 2013.

As of current and prior year end, financial assets past due or impaired were insignificant.

	31 December 2013				
	Gross credit exposure	Netting under master netting agreements	Cash collateral	Security collateral	Net credit exposures
	£'000	£'000	£'000	£'000	£'000
Exposure to credit risk by rating					
AAA	1,777,652	-	-	-	1,777,652
AA	3,405,585	-	(2,422)	(639,171)	2,763,992
A	2,727,797	(274,816)	(237,469)	(1,345,847)	869,665
BBB	608,156	-	(9,861)	(61,681)	536,614
BB	229,412	-	(2,546)	(250,858)	(23,992)
B	-	-	-	-	-
CCC	-	-	-	-	-
Unrated	106,760	-	-	-	106,760
	8,855,362	**(274,816)**	**(252,298)**	**(2,297,557)**	**6,030,691**

23. FINANCIAL RISK MANAGEMENT (continued)

b. Credit risk (continued)

	31 December 2012				
	Gross credit exposure	Netting under master netting agreements	Cash collateral	Security collateral	Net credit exposures
	£'000	£'000	£'000	£'000	£'000
Exposure to credit risk by rating					
AAA	3,456,966	-	-	-	3,456,966
AA	662,530	-	9,817	(425,906)	246,441
A	2,129,728	(284,939)	(137,888)	(1,220,746)	486,155
BBB	1,162,627	-	(8,147)	(841,259)	313,221
BB	314,133	-	(2,308)	(280,913)	30,912
B	32,757	-	-	-	32,757
CCC	-	-	-	-	-
Unrated	84,343	-	-	-	84,343
	7,843,084	**(284,939)**	**(138,526)**	**(2,768,824)**	**4,650,795**

c. Liquidity risk

Liquidity risk arises where timing differences and/or uncertainties occur between cash inflows and cash outflows. The objective of liquidity management is to ensure that Rothesay Life Limited is capable of honouring all cash flow commitments on both an on-going basis and in a stressed scenario, without incurring significant cost or business disruption. The Rothesay Life Limited liquidity and funding policy is designed to ensure the availability of sufficient funds to meet Rothesay Life Limited's cash flow requirements on a timely basis via:

- Maintenance of substantial excess liquidity. The company seeks to enter into long term, illiquid contracts that match its liabilities in order to maximise the value of the illiquidity premium. To mitigate residual liquidity risk the company maintains substantial excess liquidity to meet a broad range of potential cash outflows in a stressed environment including financing obligations.

- Conservative Asset-Liability Management. The company seeks to maintain funding sources that are sufficiently long term in order to withstand a prolonged or severe liquidity-stressed environment without having to rely on asset sales.

The Risk function which is independent of management and reports to the Chief Risk Officer, has primary responsibility for assessing, monitoring and managing liquidity risk. Risks are monitored and controlled through strong oversight and independent control and support functions across the business.

Senior management within Rothesay Life Limited are responsible and accountable for managing liquidity risks within prescribed limits that are set by the Board and are overseen by the Board Risk Committee.

The following table details the company's undiscounted cash flows of its financial liabilities and assets by contractual maturity (excluding technical provisions) including interest that was accrued where the company is entitled to repay the liability before its maturity. Other financial investments are presented at their fair value as this is consistent with the values used in the liquidity risk management of these instruments.

23. FINANCIAL RISK MANAGEMENT (continued)

c. Liquidity risk (continued)

Financial liabilities	31 December 2013						
	On Demand	Not more than one month	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Claims outstanding	4,899	-	-	-	-	-	4,899
Other liabilities	273,361	210,518	2,660	35,731	129,126	558,848	1,210,244
Borrowings	-	-	-	-	-	100,000	100,000
Deferred tax	-	-	-	-	2,914		2,914
Accruals and deferred income	-	259	4,095	769	3,814	10,498	19,435
	278,260	**210,777**	**6,755**	**36,500**	**135,854**	**669,346**	**1,337,492**

Financial assets	31 December 2013						
	On Demand	Not more than one month	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Other financial investments	410,568	48,711	10,682	13,902	420,088	2,189,270	3,093,221
Assets held to cover linked liabilities	12,971	131,201	32,849	50,038	649,033	4,484,495	5,360,587
Other debtors	69,691	-	692	-	-	-	70,383
Prepayments and accrued income	-	135	49,319	28,409	-	-	77,863
Cash	88,983	-	-	-	-	-	88,983
	582,213	**180,047**	**93,542**	**92,349**	**1,069,121**	**6,673,765**	**8,691,037**

23. FINANCIAL RISK MANAGEMENT (continued)

c. Liquidity risk (continued)

Financial liabilities — 31 December 2012

	On Demand	Not more than one month	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Claims outstanding	8,419	-	-	-	-	-	8,419
Other liabilities	208,402	-	2,081	62,828	132,833	309,133	715,277
Subordinated loans	-	-	-	-	-	205,000	205,000
Accruals and deferred income	507	76	-	786	3,939	11,478	16,786
	217,328	**76**	**2,081**	**63,614**	**136,772**	**525,611**	**945,482**

Financial assets — 31 December 2012

	On Demand	Not more than one month	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Other financial investments	980,039	-	-	57,672	271,307	1,623,616	2,932,634
Assets held to cover linked liabilities	56,913	-	(6,226)	(16,405)	415,454	4,003,472	4,453,208
Debtors arising out of direct insurance operations	-	9,654	1,464	-	-	-	11,118
Other debtors	61,347	16,124	3,208	-	-		80,679
Prepayments and accrued income	326	7,642	38,780	23,635	-	-	70,383
Cash	54,455	-	-	-	-	-	54,455
	1,153,080	**33,420**	**37,226**	**64,902**	**686,761**	**5,627,088**	**7,602,477**

23. FINANCIAL RISK MANAGEMENT (continued)

d. Fair value hierarchy

FRS29 has a three-level fair value hierarchy for disclosure of fair value measurements. The fair value hierarchy prioritises inputs to the valuation techniques used to measure fair value, giving the highest priority to level 1 inputs and the lowest priority to level 3 inputs. A financial instrument's level in the fair value hierarchy is based on the lowest level of any input that is significant to its fair value measurement. The fair value hierarchy is as follows:

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

The fair value of certain level 2 and level 3 financial assets and financial liabilities may include valuation adjustments to counterparty and the company's credit quality, transfer restrictions, large and/or concentrated positions, illiquidity and bid/offer inputs.

Through seeking the maximum realisable illiquidity premium once potential credit losses have been minimised, it is expected that pricing for a portion of the portfolio will be less observable. The Finance team review marks for all inventory monthly to ensure that prices and movements for unobservable inventory are reasonable, utilising pricing models and proxies where available.

The following table presents the company's financial investments measured at fair value at 31 December 2013.

31 December 2013	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total balance £'000
Other financial assets:				
Collective investment schemes	410,560	-	-	410,560
Government and agency obligations	222,986	341,271	-	564,257
Corporate debt	10,263	801,679	221,064	1,033,006
Derivative assets	-	418,906	796	419,702
Collateralised agreements and financing	-	541,680	124,016	665,696
Assets held to cover linked liabilities	760,533	3,442,252	1,157,802	5,360,587
Total financial assets at fair value	**1,404,342**	**5,545,788**	**1,503,678**	**8,453,808**
Other financial liabilities:				
Derivative liabilities	-	(354,825)	(3,737)	(358,562)
Collateralised agreements and borrowing	-	(341,627)	-	(341,627)
Total financial liabilities at fair value	-	**(696,452)**	**(3,737)**	**(700,189)**

23. FINANCIAL RISK MANAGEMENT (continued)

d. Fair value hierarchy (continued)

31 December 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total balance £'000
Other financial assets:				
Collective investment schemes	980,434	-	-	980,434
Government and agency obligations	377,857	-	-	377,857
Corporate debt	-	411,172	10	411,182
Derivative assets	5,912	315,498	46,224	367,634
Collateralised agreements and financing	-	629,601	165,926	795,527
Assets held to cover linked liabilities	1,227,751	2,677,407	548,050	4,453,208
Total financial assets at fair value	**2,591,954**	**4,033,678**	**760,210**	**7,385,842**
Other financial liabilities:				
Derivative liabilities	(931)	(327,199)	(892)	(329,022)
Collateralised agreements and borrowing	-	(145,390)	(31,873)	(177,263)
Total financial liabilities at fair value	**(931)**	**(472,589)**	**(32,765)**	**(506,285)**

During the year ended 31 December 2013, there were no significant transfers between level 1 and 2 financial assets and liabilities. The following table presents the changes in fair values for all the financial assets and financial liabilities categorised as level 3 for the year ended 31 December 2013. Gains and losses arising on level 3 assets are recognised within investment income in the technical account. If a financial asset or financial liability was transferred to level 3 during a reporting year, its entire gain or loss for the year is included in level 3. Transfers between levels are recognised at the beginning of the reporting year in which they occur. Accordingly, the tables do not include gains or losses that were reported in level 3 in prior years for the financial instruments that were transferred out of level 3 prior to the end of year.

Reconciliation of Level 3 Items:	Debt securities £'000	Collateralised agreements £'000	Derivatives £'000	Total financial investments £'000
At 31 December 2011	32,136	293,595	405,096	730,827
Profit or loss	-	17,037	178,174	195,211
Transfer into Level 3	-	-	9,149	9,149
Purchases, issuances of settlements	(32,126)	232,974	(408,590)	(207,742)
At 31 December 2012	**10**	**543,606**	**183,829**	**727,445**
Reconciliation of Level 3 Items:				
At 31 December 2012	10	543,606	183,829	727,445
Profit or loss	-	9,159	-	9,159
Transfer into Level 3	44,661	-	-	44,661
Purchases, issuances of settlements	917,220	-	(198,544)	718,676
At 31 December 2013	**961,891**	**552,765**	**(14,715)**	**1,499,941**

23. FINANCIAL RISK MANAGEMENT (continued)

e. Transferred assets

During the year, the company transferred certain assets where the transfers failed to meet the derecognition criteria, therefore, the company continues to recognise these assets in full on its balance sheet.

Collateralised Agreements

Assets are transferred under repurchase and securities lending agreements with other financial institutions. The nature and carrying amounts of the assets (all carried at fair value) subject to repurchase and securities lending agreements as well as their related liabilities are as follows:

		31 December 2013
	Asset	Related liability
	£'000	£'000
Government and agency obligations	496,746	480,190
Corporate debt	1,181,310	800,879
Total	**1,678,056**	**1,281,069**

As the substance of these transactions is secured borrowings and repurchase agreements the asset collateral continues to be recognised in full and the related liability reflecting the company's obligations to repurchase the transferred assets at a future date is recognised in other liabilities. The company remains exposed to interest rate risk and credit risk on these pledged instruments. The counterparties recourse is not limited to the transferred assets.

f. Fair value of financial instruments

For financial assets and liabilities not measured at fair value, the carrying amounts in the balance sheet are a reasonable approximation of fair value given the short term nature of these instruments.

g. Longevity risk

The company is exposed to the risk that longevity experience is less favourable than expected. This would require pension payments to be made for longer and so increase the costs of benefits provided by the company.

Senior management within Rothesay Life Limited are responsible and accountable for managing longevity risk within prescribed limits that are set by the Board Risk Committee. The risk exposure is actively managed through rigorous underwriting, frequent monitoring of experience and collateralised reinsurance contracts.

The company regularly reviews its mortality experience and industry projections for future rate of improvement in mortality rates and adjusts its valuation and pricing assumptions accordingly.

Recent mortality experience was analysed for each pension scheme at the end of 2013. Where the data was considered statistically credible, the mortality assumptions used in the valuation are based on this actual mortality experience, with a prudential margin to reflect that future mortality experience for the schemes may be less favourable than the best estimate assumption. Where the data is not statistically credible, the company has taken into account reinsurance quotes and proprietary socio-demographic models, based on postcode and other factors, again with a prudential margin to reflect that future mortality experience for the schemes may be less favourable than the best estimate assumption.

Allowance is made for future improvements in annuitant mortality based on prudent statistical expectations of future improvements and compared to externally published data as described in note 14.

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

24. CAPITAL MANAGEMENT

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

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

As at 31 December 2013 the company had sufficient capital available to meet its regulatory capital requirements. The company holds both debt and equity to optimise its capital structure and improve shareholder return.

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

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

The capital held within the shareholder's fund is generally available to meet any requirements. It remains the intention of management to ensure that there is adequate capital to exceed the company's regulatory requirements.

Total available capital resources at 31 December 2013 are £654.1m (31 December 2012 £790.0m) of which:

At 31 December 2013	Long term fund £'000	Shareholder's funds £'000	Total £'000
Shareholder's funds outside long term fund	-	277,785	277,785
Shareholder's funds held in long term fund	291,678	-	291,678
Total shareholder's funds	291,678	277,785	569,463
Adjustments onto regulatory basis	7,862	76,803	84,665
Total available capital resources	**299,540**	**354,588**	**654,128**

At 31 December 2012	Long term fund £'000	Shareholder's funds £'000	Total £'000
Shareholder's funds outside long term fund	-	254,822	254,822
Shareholder's funds held in long term fund	319,962	-	319,962
Total shareholder's funds	319,962	254,822	574,784
Adjustments onto regulatory basis	138,300	76,920	215,220
Total available capital resources	**458,262**	**331,742**	**790,004**

The company does not write any with profits or unit linked business.

The company is required to hold sufficient capital to meet the PRA capital resource requirements, based on the higher of Capital Resources Requirement ('CRR') determined in accordance with the PRA's regulatory rules, and the ICA.

24. CAPITAL MANAGEMENT (continued)

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

At 31 December 2013 the available capital was 229% (31 December 2012: 322%) of the capital requirement of £285.5m (31 December 2012: £245.2m).

Movements in capital resources

	31 December 2013 £'000	31 December 2012 £'000
Opening balance	**790,004**	**555,288**
New business	56,745	67,100
Management of in force book	150,991	234,395
Experience variance	23,280	1,015
Expenses	(39,976)	(40,822)
Other	(784)	7
Operating surplus	**980,260**	**816,983**
Interest on capital instruments	(4,999)	(4,783)
Tax	(40,133)	(2,196)
Repayment of capital instrument	(132,500)	(20,000)
Issue of ordinary share	132,500	-
Dividend payment	(281,000)	-
Closing balance	654,128	790,004

A material profit was made through the writing of the four new schemes during the year. Assumptions were reviewed through the year and refined in some areas that were deemed to be overly prudent, releasing reserves.

Capital resource sensitivities

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 company seeks to mitigate these risks through the use of derivative hedges. Management monitor these assumptions and market conditions and would take appropriate action if relevant.

Longevity is the company's main risk. The capital position is sensitive to assumptions and experience relating to longevity, even though 55% of the risk has been reinsured. The long term liabilities of the company increase by approximately £221m (31 December 2012: £158.5m) for an extra year of life expectancy, equivalent to a 5% increase in life expectancy above the impact of currently anticipated mortality improvements (31 December 2012: 4%). A 1% increase in life expectancy would cause a £42m increase in the long term liabilities of the company and therefore regulatory capital resources will reduce by a similar amount. Future mortality expectations change slowly with a one year change being a relatively large movement. Expectations can increase or decrease over time.

Rothesay Life Limited is exposed to changes in market conditions but controls its exposure to the various elements of this risk as follows:

- **interest and inflation rates risk:** A portfolio of interest and inflation swaps is structured such that each basis point movement in interest rates or inflation will change the value of assets and liabilities by a similar amount.

24. CAPITAL MANAGEMENT (continued)

Capital resource sensitivities (continued)

- **credit risk:** As well as holding government bonds, government guaranteed bonds, supranational bonds and regulated covered bonds, the company also holds corporate bonds with matching collateralised credit default swaps or total return swaps. Given this approach, RLL therefore has a reduced risk of reductions in regulatory capital resources caused by defaults on bonds. In addition to these assets the company has during 2013 increased its exposure to other assets including social housing and infrastructure assets. The company bears minimal credit risk under these arrangements unless the cash advanced to the counterparty exceeds the value of the collateral received.

- **currency risk:** The company holds some Euro, US Dollar and Japanese Yen denominated corporate bonds. All foreign currency coupon and principal receipts are swapped for sterling cash flows thereby reducing the risk of volatility in regulatory capital resources due to exchange rate movements.

Management monitor 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 if appropriate.

Solvency II represents a fundamental review to the way in which insurers will calculate their required capital and has an expected implementation date of 1 January 2016. The high level regulation is defined but there continues to be significant uncertainty as to the content of the detailed implementation guidance. On 1 January 2014 the company enters the 'Interim measures' preparatory stage for Solvency II and will be looking towards full compliance by the implementation date. In addition the company continues to actively monitor the developments and assess the impact of developments on its future capital position.

25. POST BALANCE SHEET EVENTS

On 18 February 2014, the company announced it had entered into an agreement to acquire 100% of the shares of MetLife Assurance Limited, the UK bulk annuity business of MetLife Inc., consistent with the company's strategy to supplement organic growth. The company has executed definitive legal documentation with MetLife Inc. regarding the proposed purchase and has submitted a request for change in control to be approved by the PRA and FCA. The PRA and FCA decision is expected to be received during the second quarter of 2014.

Management have acknowledged the proposed pensions reforms announced by the government as part of the 2013-2014 Budget but do not anticipate a material impact on the company given the majority of changes proposed relate to defined contribution pension schemes. The company's business is concentrated on transactions with defined benefit pension schemes and in force annuity blocks.

26. FINANCIAL COMMITMENTS AND CONTINGENCIES

During 2013 the company executed transactions to purchase partly funded bonds. The company expects to pay a further £123m within the next 5 years, £25m of this being due within 12 months of the balance sheet date (31 December 2012: £262m).

27. RELATED PARTY TRANSACTIONS

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

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

	31 December 2013 £'000	31 December 2012 £'000
Income Statement		
Realised/unrealised (losses)/gains on financial assets and liabilities	(268,706)	263,595
Interest income on bank deposits	50	228
Income from money market securities held in collective investment schemes	2,144	2,640
Interest on collateralised agreements and financing	48,388	52,199
Service fee charges	(15,135)	(5,324)
Investment expenses and charges	(6,159)	(10,682)
Balance Sheet		
Derivative financial assets and liabilities	(421,053)	(223,013)
Collateralised agreements and financing	1,089,774	1,545,685
Collective investments schemes	407,456	1,020,752
Amounts payable to related party	(211,146)	(172,076)
Capital		
Ultimate parent company	-	135,000
Dividends paid	281,000	-

Service fee charges from participating interests represents the recharge of expenses (including employee salaries, bonus, other emoluments and direct and indirect overhead expenses) incurred by the participating interest for support services provided to the company. During the year an additional £4m (year ended 31 December 2012: £nil) of bonus payments were borne by a fellow participating interest, as part of a long term incentive arrangement. The company will not be charged for this expense.

The nominal value of derivatives contracts outstanding with related parties as at 31 December 2013 was £52,078.2m (31 December 2012: £35,621.6m).

The company continues to finalise the development of fully independent infrastructure and computer systems and to remove the need for infrastructure/systems support provided by Goldman Sachs. Any such services/support provided by Goldman Sachs are provided on an arms-length basis under a Transition Services Agreement (TSA). These workstreams are expected to be completed within the next 18-24 months, including a 6-9 month phase of running both previous and new systems/procedures in parallel to ensure a smooth and efficient transition period.

Ultimate and Immediate Parent Undertaking

At the balance sheet date, the immediate and ultimate parent company was Rothesay Holdco UK Limited, which is incorporated in the United Kingdom. Group accounts are prepared for Rothesay Holdco Limited, copies of which can be obtained from the Company Secretary, Christchurch Court 10-15 Newgate Street London EC1A 7HD.

Company Number. 06127279

ROTHESAY LIFE LIMITED

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

Strategic Report

The Directors present their Interim Condensed Consolidated Financial Statements for Rothesay Life Limited, registered number 06127279, (the 'RL Group' or 'RLL') for the six month period ended 30th June 2015. Comparative information has not been presented for the six month period ended 30th June 2014 as interim accounts were not produced for the Company at that date but comparative information has been presented for the year ended 31st December 2014. All information (unless otherwise specified) has been provided on a consolidated basis for the whole Rothesay Life Limited Group (the 'RL Group').

Principal Activities

RLL provides bulk annuity and other bespoke pension insurance solutions tailored to meet the specific needs of our clients which include defined benefit pension plans and individual annuity providers. The RL Group is authorised to write long term insurance business by the Prudential Regulation Authority (the 'PRA') and is regulated by the PRA and the Financial Conduct Authority (the 'FCA'). RLL is the principal insurance entity within the RL Group and all new business in the RL Group is, and is expected to continue to be, written out of RLL.

Review of the Business

New Business

The RL Group made a pre-tax profit for the period ended 30th June 2015 of £180.4m (year ended 31st December 2014: £260.0m). During the period, the RL Group generated gross written premiums of £1,870.6m (year ended 31 December 2014: £1,679.3m).

The Consolidated Statement of Financial Position is set out on page 8. The RL Group has reported total assets of £23,505.2m (31 December 2014: £21,874.8m). The increase of £1,630.4m was primarily driven by new business premiums received throughout the period.

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

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

The Zurich transaction in particular represents a significant milestone for the RL Group as this is the first reinsurance transaction of a block of in-force individual annuity policies by the RL Group from another life insurer. The RL Group's management team believe that such transactions will become more prevalent over the next few years as other insurance companies and groups look to release encumbered capital from legacy, non-core business units. Annuity liabilities in particular will become operationally and financially onerous under Solvency II for insurance groups that are not specialist managers of the risks associated with annuity liabilities. Such liabilities are likely to be managed with greater capital and operational efficiency by annuity specialists such as Rothesay Life. Management therefore expects future near-term opportunities to acquire annuity blocks from other insurance groups using a similar structure.

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

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

Strategic Report (continued)

Review of the Business (continued)

New Business (continued)

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

Investment

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

New investments have included loans secured on large low-risk portfolios of UK residential ground rents, the first Consumer Price Index linked bond issued in the UK for the Greater London Authority to finance the extension of the London Underground and bonds whose proceeds are used to finance Ivy-League universities in the United States such as Harvard. Innovative transactions such as these demonstrate the RL Group's ability to diversify our investment base whilst preserving the core principle of achieving high security from assets whilst generating attractive returns. We believe the outlook for investment conditions in the second half of 2015 is strong and the medium term prospect of rising interest rates should lead to further interesting asset deployment opportunities.

Solvency II

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

Under Solvency II Pillar 2, the RL Group is required to hold sufficient assets to meet:

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

Matching adjustment

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

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

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

Strategic Report (continued)

Solvency II (continued)

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

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

Business Outlook

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

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

Report of the Directors

Directors' Responsibilities Statement

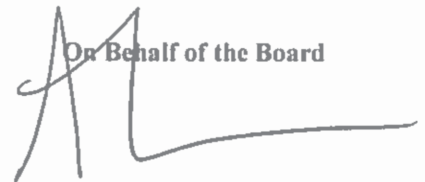
The Directors' of the RL Group confirm that these Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union ('EU') except for the omission of prior period comparative figures and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

- An indication of important events that have occurred during the first six months and their impact on the condensed set of Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- Material related-party transactions in the first six months and any material changes in the related-party transactions described in the last Annual Report.

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

On Behalf of the Board



AddyLoudiadis.
Chief Executive Officer
9th September

Consolidated Statement of Comprehensive Income

For the period ended 30th June 2015	Note	Period ended 30 June 2015	Year ended 31 December 2014
		£000s	£000s
Income			
Gross premiums written	2	1,867,532	1,679,335
Premiums ceded to reinsurers		(252,005)	(435,179)
Net Premiums Written		**1,615,527**	**1,244,156**
Investment return	7	(131,466)	1,778,936
Total Revenue		**1,484,061**	**3,023,092**
Expenses			
Claims and change in insurance contract liabilities	3	(1,500,744)	(3,228,526)
Change in the reinsurers' share of insurance contract liabilities	3	233,745	533,182
Net Claims Incurred and Change in Insurance Contract Liabilities		**(1,266,999)**	**(2,695,344)**
Operating expenses	4	(32,659)	(61,321)
Finance costs	5	(3,992)	(6,443)
Total Operating Expenses		**(36,651)**	**(67,764)**
Profit Before Tax		**180,411**	**259,984**
Income tax expense	6	(36,038)	(57,085)
Profit for the period/Year		**144,373**	**202,899**

All income and expenses relate to continuing operations.

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

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

Consolidated Statement of Financial Position

As at 31st December 2014		Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s
Assets			
Property, plant and equipment	9	2,157	1,524
Financial investments	10	22,818,356	20,989,390
Reinsurance assets	13	285,162	288,654
Accrued interest and prepayments		87,843	130,816
Receivables		198,928	357,733
Cash and cash equivalents		112,784	106,711
Total Assets		**23,505,230**	**21,874,828**
Equity and Liabilities			
Share capital	16	183,901	183,901
Share premium	17	199,854	199,854
Retained earnings	17	649,235	504,862
Total Equity		**1,032,990**	**888,617**
Liabilities			
Insurance contract liabilities	12	13,212,648	12,105,682
Payables and financial liabilities	14	9,122,978	8,743,766
Borrowings	15	100,000	100,000
Deferred tax liabilities	11	3,246	3,429
Accruals and deferred income		33,368	33,334
Total Equity and Liabilities		**23,505,230**	**21,874,828**

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

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

Addy Loudiadis.
Chief Executive Officer
Company number 06127279

Consolidated Statement of Changes in Equity

For the period ended 30th June 2015

	Share Capital	Share Premium	Retained Earnings	Total Equity
	£000s	£000s	£000s	£000s
As at 1 January 2015	183,901	199,854	504,862	888,617
Profit for the period	-	-	144,373	144,373
As at 30 June 2015	**183,901**	**199,854**	**649,235**	**1,032,990**

For the year ended 31st December 2014

	Share Capital	Share Premium	Retained Earnings	Total Equity
	£000s	£000s	£000s	£000s
As at 1 January 2014	155,121	112,379	301,963	569,463
Profit for the year	-	-	202,899	202,899
Shares issued	28,780	87,475	-	116,255
As at 31 December 2014	**183,901**	**199,854**	**504,862**	**888,617**

Consolidated Cash Flow Statement

	Note	Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s
Cash Flows from Operating Activities			
Profit for the period/year		144,373	202,899
Adjustments for Non Cash Movements in Net Profit for the period/year			
Interest income		(177,412)	(270,325)
Interest expense		3,992	6,442
Depreciation		219	
Other adjustments		-	7,988
Tax expense		36,038	57,085
Net Increase in Operational Assets			
Financial investments		(1,828,966)	(6,649,323)
Reinsurance asset		3,493	(124,329)
Receivables		162,175	(278,983)
Net Increase in Operational Liabilities			
Insurance contract		1,106,966	2,464,431
Payables		(399,746)	575,181
Financial liabilities		786,658	4,026,346
Accruals		-	9,734
Cash generated in Operations		**(162,210)**	**27,146**
Interest paid		(4,481)	(4,349)
Interest received		220,839	277,747
Tax paid		(47,223)	(42,733)
Net Cash Inflow from Operating Activities		**6,925**	**257,811**
Cash Flows from Financing Activities			
Proceeds from issue of ordinary share capital (including share premium)		-	116,255
Net Cash Inflows from Financing Activities		-	**116,255**
Cash Flows from Investing Activities			
Net acquisition of plant, equipment and intangibles		(852)	(1,524)
Acquisitions of subsidiaries		-	(354,814)
Net Cash Flows from Investing Activities		**(852)**	**(356,338)**
Net increase in cash and cash equivalents		6,073	17,728
Cash at bank and in hand at 1 January		106,711	88,983
Cash and Cash Equivalents at 30 June 2015/31 December 2014		**112,784**	**106,711**

Notes to the Financial Statements

Note 1 – Accounting Policies

(a) General Information

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

(b) Basis of Preparation

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

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

RLL presents its Statement of Financial Position broadly in order of liquidity.

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

c) Accounting policies

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

Notes to the Financial Statements (continued)

Note 2 – Segmental Analysis

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

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

Note 3 – Net Claims and Change in Insurance Contract Liabilities

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

Notes to the Financial Statements (continued)

Note 4 – Operating Expenses

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

	Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s
Acquisition costs	24,622	37,960
Administration expenses - recurring	4,255	8,585
Administration expenses - project other	3,782	14,776
	32,659	**61,321**

Note 5 – Finance Costs

	Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s
Interest payable on collateral	1,536	1,511
Interest payable on overnight loans	9	23
Interest payable on third party borrowings	2,447	4,909
Net Finance Costs	3,992	**6,443**

Note 6 – Taxation

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

(a) Tax charged in the income statement

	Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s
Current income tax:		
UK corporation tax	36,221	57,479
Total Current Income Tax	**36,221**	**57,479**
Deferred tax:		
Origination and reversal of temporary differences	(183)	(394)
Total Deferred Tax	**(183)**	**(394)**
Total Expense in the Income Statement	**36,038**	**57,085**

Notes to the Financial Statements (continued)

Note 6 – Taxation (continued)

(b) Reconciliation of the total tax charge

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

	Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s
Profit from continuing operations before tax	180,411	259,983
Tax calculated at UK standard rate of corporation tax of 20.25% (2014: 21.49%)	36,533	55,870
Adjustment to tax charge in respect of prior periods	-	207
Expenses not deductible for tax purposes	49	14,303
Income not subject to corporation tax	-	(12,115)
Tax losses on which deferred tax asset recognised	-	(13)
Utilisation of losses surrendered by group undertakings	(544)	(1,167)
Total Tax Expense Reported in the Consolidated Statement of Comprehensive Income	**36,038**	**57,085**

Note 7 – Investment Return

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

	Period ended 30 June 2015 £000s	Year ended 31 December 2014 £000s
Interest income on financial investments at fair value through profit and loss	177,412	270,321
Realised gains on financial investments	351,704	564,189
Unrealised (losses)/gains on financial investments	(657,632)	895,260
Investment expenses	(2,950)	(7,247)
Gain on acquisition of subsidiary undertaking	-	56,413
Total Investment Return	**(131,466)**	**1,778,936**

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

Notes to the Financial Statements (continued)

Note 8 – Investment in Unconsolidated Structured Entities

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

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

Note 9 – Property, Plant and Equipment

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

Note 10 – Fair Value

Determination of fair value and fair values hierarchy

The RL Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Notes to the Financial Statements (continued)

Note 10 – Fair Value (continued)

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

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

30 June 2015

	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Financial investments:				
Collective investment schemes	789,833	-	-	789,833
Government and agency obligations	2,802,301	2,844,514	-	5,646,815
Corporate debt	-	5,077,804	438,608	5,516,412
Derivative assets	-	6,772,455	1,743	6,774,198
Collateralised agreements and financing	-	3,979,934	-	3,979,934
Certificate of deposits	-	111,164	-	111,164
Total Financial Investments at Fair Value	**3,592,134**	**18,785,871**	**440,351**	**22,818,356**
Financial liabilities:				
Derivative financial instruments	-	6,414,948	12,082	6,427,030
Collateralised financing agreements	-	1,933,207	-	1,933,207
Total Financial Liabilities at Fair Value	-	**8,348,155**	**12,082**	**8,360,237**

31 December 2014

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

Notes to the Financial Statements (continued)

Note 10 – Fair Value (continued)

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

The following table shows a reconciliation of the opening and closing recorded amounts in relation to the Level 3 financial instruments recorded at fair value:

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

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

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

Notes to the Financial Statements (continued)

Note 11 – Deferred Taxation

Deferred tax balances comprise:	30 June 2015 £000s	31 December 2014 £000s
Temporary differences between the financial statements and the tax deductions for insurance liabilities	(3,246)	(3,429)
	(3,246)	(3,429)

The movements in the deferred tax balances were as follows:

	30 June 2015 £000s	31 December 2014 £000s
At 1 January	(3,429)	(2,914)
Consolidation adjustment	89	(909)
Capital allowances	(16)	(58)
Transitional adjustments	110	452
At Financial Statement date	(3,246)	(3,429)

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

On 8th July 2015 proposed changes to the main rate of UK corporation tax were announced. The changes propose to reduce the rate from 20% to 19% by 1 April 2017 and to 18% by 1 April 2020. The changes had not been substantively enacted at the balance sheet date and therefore, are not recognised in these financial statements. Had they been substantially enacted they would have reduced the deferred tax liability by £0.5m.

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 RL Group's insurance contract liability valuations.

(a) Mortality Assumptions

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)

Note 12 – Insurance Contract Liabilities (continued)

Key Valuation Assumptions (continued)

(b) Valuation Rate of Interest

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

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

	30 June 2015	31 December 2014
Equivalent valuation discount rate	3.1%pa	2.9%pa

This reflects both the prescribed PRA 2.5% prudential margin applied to the risk adjusted internal rate of return obtained on the basket of matching assets and the allowance for investment management expenses of 3bps p.a. (31 December 2014: 3bps p.a).

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

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

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

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

Notes to the Financial Statements (continued)

Note 12 – Insurance Contract Liabilities (continued)

Key Valuation Assumptions (continued)

(c) Expenses

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

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

Other Assumptions

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

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

Notes to the Financial Statements (continued)

Note 12 – Insurance Contract Liabilities (continued)

Key Valuation Assumptions (continued)

(d) Movements in Insurance Contract Liabilities

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

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

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

Effect of Changes in Assumptions and Estimates During the Period

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

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

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

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

Notes to the Financial Statements (continued)

Note 12 – Insurance Contract Liabilities (continued)

Key Valuation Assumptions (continued)

(e) Sensitivity Analysis

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)

Note 13 – Reinsurance Assets

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

	30 June 2015 £000s	31 December 2014 £000s
Reinsurance of insurance contract liabilities	285,162	288,654

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

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

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

Note 14– Payables and Financial Liabilities

	30 June 2015 £000s	31 December 2014 £000s
Derivative financial instruments	6,427,030	5,551,149
Collateralised financing agreements	1,933,207	2,022,430
Deposits received as collateral from third parties	381,043	640,953
Deposits received as collateral for derivatives from participating interest	327,215	464,506
Amounts due to group undertakings	14,849	13,704
Current tax payable	36,628	47,031
Other payables	3,006	3,993
	9,122,978	8,743,766

Note 15 – Borrowings

The RL Group's borrowings are as follows:

	30 June 2015 £000s	31 December 2014 £000s
Affiliate subordinated loan	100,000	100,000

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

The fair value of borrowings is £100m (2014: £100m).

Notes to the Financial Statements (continued)

Note 16 – Share Capital

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

	30 June 2015		31 December 2014	
	No.	£000s	No.	£000s
Authorised share capital (ordinary shares of £1 each)	183,900,840	183,901	183,900,840	183,901

Note 17 – Share Premium Account and Reserve

	Share premium £000s	Retained earnings £000s
At 1 January 2015	**199,854**	**504,862**
Profit for the period	-	144,373
Shares issues	-	-
At 30 June 2015	**199,854**	**649,235**

Note 18 – Related Parties Disclosures

Ultimate Holding Company

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

Related Party Transactions

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

Notes to the Financial Statements (continued)

Note 18 – Related Parties Disclosures (continued)

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

	30 June 2015 £000s	31 December 2014 £000s
Statement of Comprehensive Income		
Realised/Unrealised losses on financial assets and liabilities	(16,063)	(563,639)
Interest income on bank deposits	13	36
Income from money market securities held in collective investment schemes	1,225	2,889
Interest on collateralised agreements and financing	15,053	31,786
Service fee charges	(1,543)	(4,161)
Investment expenses and charges	(482)	(7,077)
Statement of Financial Position		
Derivative financial assets and liabilities	(989,331)	(1,119,032)
Collateralised agreements and financing	1,429,317	1,440,880
Collective investments schemes	772,045	708,519
Accrued interest and prepayments	83	242
Amounts payable to related party	(233)	(890)

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

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

Notes to the Financial Statements (continued)

Note 18 – Related Parties Disclosures (continued)

Transactions with key Management Personnel

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

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

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

The table below represents transactions between RL and its subsidiary RAL, its parent RHUK and other group company RPML.

Transactions with Rothesay Pensions Management Limited

	30 June 2015 £000s	31December 2014 £000s
Statement of Comprehensive Income		
Cost transfer	(16,315)	(25,627)
Statement of Financial Position		
Other payables	14,609	13,090

Transactions with Rothesay Assurance Limited

	30 June 2015 £000s	31December 2014 £000s
Statement of Comprehensive Income		
Interest income on bank deposits	367	12
Investment management charges	-	(26)
Cost transfer	219	2,186
Statement of Financial Position		
Investment in subsidiary undertaking	421,381	421,381
Derivative financial instruments	135,132	116,223
Other receivables	505	201
Other payables	(111,070)	(120,160)

Notes to the Financial Statements (continued)

Note 18 – Related Parties Disclosures (continued)

Transactions with Rothesay Holdco UK Limited

	30 June 2015 £000s	31December 2014 £000s
Statement of Comprehensive Income		
Interest on collateralised agreements and financing	127	60
Cost transfer	35	284
Statement of Financial Position		
Other receivables	11,177	5,015
Capital	383,754	383,754

Note 19 – Subsidiary Undertakings

Subsidiary Undertakings

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

Group Undertakings	Country of Incorporation	Primary business operation	2015 % equity interest	2014 % equity interest
Rothesay Assurance Limited (Formerly known as MetLife Assurance Limited)	UK	Services Company	100%	100%
LT Mortgage Financing Limited	UK	Services Company	100%	-

The above subsidiary undertaking is registered in England and Wales.

Note 20 – Capital Management

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

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

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

Notes to the Financial Statements (continued)

Note 20 – Capital Management (continued)

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

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

The capital held within the shareholders' fund is generally available to meet any requirements. It remains the intention of management to ensure that there is adequate capital to exceed the RL Group's regulatory requirements.

Total available capital resources at 30th June 2015 are £1,112.9m (31 December 2014: £970.9m) of which:

At 30 June 2015	**Long Term Fund**	**Shareholder's Funds**	**Total**
	£000s	**£000s**	**£000s**
Shareholders' funds outside long term fund	-	356,450	356,450
Shareholders' funds held in long term fund	676,540	-	676,540
Total shareholders' funds	676,540	356,450	1,032,990
Adjustments onto regulatory basis	(426,922)	506,803	79,881
Total Available Capital Resources	**249,618**	**863,253**	**1,112,871**

At 31 December 2014	**Long Term Fund**	**Shareholder's Funds**	**Total**
	£000s	**£000s**	**£000s**
Shareholders' funds outside long term fund	-	385,715	385,715
Shareholders' funds held in long term fund	328,162	-	328,162
Total shareholders' funds	328,162	385,715	713,877
Adjustments onto regulatory basis	(241,991)	498,984	256,993
Total Available Capital Resources	**86,171**	**884,699**	**970,870**

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

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

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

At 30th June 2015 the IGD cover was 210% (31 December 2014: 204%) of the capital requirement of £531.1m (31 December 2014: £477.1m).

Notes to the Financial Statements (continued)

Note 20 – Capital Management (continued)

Movements in Capital Resources

	30 June 2015 £000s	31 December 2014 £000s
Opening Balance	**970,870**	**654,128**
New business	87,700	60,800
Acquisition of RAL	-	210,203
Management of in force book	122,831	50,836
Expenses	(28,755)	(46,521)
Demographic experience variance	1,697	11,739
Other	1,840	(7,633)
Operating Surplus	**1,156,183**	**933,552**
Economic profits	499	(610)
Non recurring expenses	(3,781)	(14,800)
Finance costs	(3,992)	(6,443)
Tax	(36,038)	(57,084)
Issue of ordinary share	-	116,255
Closing Balance	**1,112,871**	**970,870**

Note 21 – Financial Commitments and Contingencies

Operating lease rentals commitments arise where a group company is the lessee in respect of non-cancellable operating lease agreements. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss on a straight line basis over the period of the lease. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

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

Notes to the Financial Statements (continued)

Note 21 – Financial Commitments and Contingencies (continued)

Other Commitments

During prior years the RL Group executed transactions to purchase partly funded bonds. The RL Group expects to pay a further £173m within the next 5 years (2014: £197m), £24m of this being due within 12 months of the financial reporting date (31 December 2014: £nil).

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

Note 22 – Post Balance sheet Event

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

PRINCIPAL OFFICE OF THE ISSUER

Rothesay Life Limited
Level 25, The Leadenhall Building
122 Leadenhall Street
London EC3V 4AB
United Kingdom

TRUSTEE

Citicorp Trustee Company Limited
Citigroup Centre, 13th Floor
25 Canada Square
London E14 5LB
United Kingdom

PRINCIPAL PAYING AGENT

Citibank N.A., London Branch
Citigroup Centre, 13th Floor
25 Canada Square
London E14 5LB
United Kingdom

REGISTRAR AND TRANSFER AGENT

Citibank N.A., London Branch
Citigroup Centre, 13th Floor
25 Canada Square
London E14 5LB
United Kingdom

AUDITOR OF THE ISSUER

Pricewaterhouse Coopers LLP
7 More London Riverside
London SE1 2RT
United Kingdom

LEGAL ADVISERS

To the Issuer

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

To the Joint Lead Managers

Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS
United Kingdom

To the Trustee and Principal Paying Agent

Allen & Overy LLP
One Bishops Square
London E1 6AD
United Kingdom

LISTING AGENT

Arthur Cox Listing Services Limited
Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland

sterling 166305