SCOTTISH EQUITABLE PLC

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2015

COMPANY NUMBER 144517

Chairman
Philip C Easter

Directors
Clare J Bousfield
Darryl D Button
David M Dalton-Brown
Adrian T Grace
Simon J Gulliford
Caroline F Ramsay
Karen R Wright
Adrian M Eastwood
Michael J Merrick
James Ewing

Secretary
James K Mackenzie

Registered Office
Aegon Lochside Crescent
Edinburgh Park
Edinburgh
EH12 9SE

Independent Auditors
PricewaterhouseCoopers LLP
Atria One,
144 Morrison Street
Edinburgh
EH3 8EX

Company Number: 144517

SCOTTISH EQUITABLE PLC
STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

Principal activity

The Company's principal activity is the provision of corporate and individual pensions, protection products, annuities, and savings products in the UK. Scottish Equitable plc is predominantly a retirement savings and protection business, supporting customers saving for, and in, retirement. Products are increasingly sold through its web portals, which enable advisors, employers and individuals to buy and manage investments online and to have a single view of investments. The principal activities of the Company's subsidiary undertakings are shown under note 10 to the financial statements. The Company is domiciled and incorporated in Scotland.

Review of business and future developments

The Company, which primarily operates under the brand Aegon, is one of the UK's leading providers of individual and group pensions, protection, annuities and investment products.

In April 2015, the government removed all restrictions on individuals being able to access their pension pots, thereby significantly increasing the flexibility with which individuals can use their pension savings. Individuals are now no longer restricted to buying an annuity or entering drawdown. They can choose to withdraw some of their money, all of it, take flexible income through drawdown, or secure income via an annuity or guaranteed product. This development has had a substantial impact on the at retirement market with a large reduction in annuity sales and an increase in the purchase of income drawdown products. Financial Conduct Authority (FCA) industry sales data show that annuity sales fell by 70% in the first half of 2015 compared with the first half of 2014, while income drawdown sales rose by 67%. In addition, many customers chose to withdraw part of their pension pot tax-free.

The shift from annuity products to drawdown products has created significant opportunities for the Company because it has been a relatively small player in the UK annuity market, and much stronger in drawdown products. The recently launched Secure Retirement Income product is unique in the UK in providing a guaranteed retirement income product on a platform.

The Directors remain confident that the Company is well placed for the challenges and opportunities that continue to arise through regulatory and market changes, which include the continued impacts of increased pensions flexibility noted above, the continual implementation of Department of Work and Pensions (DWP) cap on group pension charges and embedding of Solvency II.

The comparatives have been restated for the impact of voluntary changes to the accounting policy for valuation basis for insurance liabilities and the consequential reclassification of the Company's annuity backing debt securities from available-for-sale to fair value through profit and loss. See note 1.1.3 for further details.

Scottish Equitable plc has three main distribution channels: Financial Advisors (referred to as "Retail"), Workplace and Direct to Customer. An award-winning platform supports all of these channels in an integrated way. It continued to be one of the fastest-growing platforms in the UK Market in 2015[1].

Retail channel – Aegon Retirement Choices (ARC)

Scottish Equitable plc offers a comprehensive digital proposition to independent financial advisors and strategic partnerships. Aegon Retirement Choices (ARC) helps advisors and their customers with the transition from work to retirement. ARC uses leading-edge digital technology to deliver an intuitive method of saving for retirement, taking income in retirement, and dealing with changing circumstances. It also provides valuable online reporting and lifestyle tools that enable advisors to demonstrate their professionalism and display their charges for advice in a transparent way. In addition to the Self Invested Pension Plan – which provides a range of pre-and post-retirement investment options for high-net-worth customers (including insured funds and a wide range of open-ended investment companies).

Scottish Equitable plc offers two distinct versions of the proposition targeted at distinct market segments:

- A full-wrap service, which includes multiple wrapper choices, fully open architecture fund choice and digital advisor/customer self-service access; and

---

[1] Platforum, UK Advisor Platform Guide, November 2015

- 'One Retirement', a standalone pension accumulation and drawdown product, designed to be a single-point solution for customers that do not have a broader set of needs.

Scottish Equitable plc's Retail sales team has been driving proposition adoption by helping Independent Financial Advisors (IFAs) to upgrade existing business and to acquire new assets from other providers.

Workplace channel – Workplace Aegon Retirement Choices

The Company is building and diversifying its workplace distribution capability to cover a range of advisors from IFAs to large Employee Benefit Consultants (EBCs), for example by extending Aegon UK's successful partnership with Mercers. Services that Aegon UK offers include:

- 'Workplace Aegon Retirement Choices', a comprehensive pension proposition that manages workplace pensions for employers in a seamless and streamlined way, enabling them to offer employees a choice of savings wrappers;
- Employers' auto-enrolment obligations, which are supported through Aegon's SmartEnrol capability;
- Support for the governance of the workplace pension scheme, which is offered through the sophisticated analytics of Aegon's Smart Governance; and
- Employee access to Retiready, which enables employers to cater for all levels of employee investment knowledge and confidence, in addition to moving with their employees throughout their working life.

Direct to Customer channel

In April 2014, the Company launched its Retiready digital retirement planning service, which is designed to help customers understand how on track they are for the retirement they want and to support them in taking action. Answering a few simple questions gives customers a Retiready score out of 100, showing how ready they are for retirement.

Since its launch, the Company has been focusing on existing customers that no longer have an advisor, and either upgrading them to Retiready or offering a 'Digital Look Through' service for their existing policy on Retiready. Retireready customers have access to a number of tools to help them better engage with and manage their retirement savings. In 2015, over 140,000 customers with assets of around GBP 2 billion were successfully transitioned to the new proposition.

<u>Key performance indicators</u>

The Board of the Company monitors key performance indicators on a regular basis to track business performance. These indicators include new business production, expenses, market consistent value of new business ("MCVNB"), IFRS earnings, capital and solvency and revenue generating investments.

The table below compares certain major indicators between 2015 and 2014:

	2015	2014*	Change
	£m	£m	%
Net income*	**251**	176	43%
Administration expenses	**230**	304	(24%)
New business production**	**661**	783	(16%)
Platform assets under management**	**6,437**	2,700	138%
MCVNB (including liquidity premium)**	**(1)**	(9)	(89%)
Pillar 1 excess capital	**795**	444	79%
Revenue generating investments	**57,952**	59,113	(2%)

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

** New business production, platform assets under management and MCVNB are not reported in the financial statements on pages 15 to 72 and are therefore non-GAAP measures. Platform assets under management represents the value of assets on the Aegon UK platform and comprises SIPP products provided by Scottish Equitable plc and investment products provided by Aegon Investment Solutions Limited.

Net income amounted to £250.6m in 2015 compared to £175.5m in 2014. (Note all 2014 comparative figures have been adjusted for the voluntary disclosure changes, note 1.1.3). This represents increased Life and Pensions earnings. The increase in Net income primarily relates to the release of insurance contract liabilities using updated assumptions based on latest available mortality tables and experience, lower business transformation costs, lower one off costs in implementing the Department of Work and Pensions (DWP) cap on group pensions set off against losses on investments.

Income before tax amounted to a profit of £295.7m compared to a profit of £230.7m in 2014. Income before tax in 2015 includes a positive impact from charges in respect of policyholder tax of £12.5m (2014: £34.1m). These give rise to an equal and opposite income tax charge so there is no impact at the Net Income level. Income before tax also includes interest income on loans to other Aegon N.V. group companies and related gains of £7.7m (2014: £9.0m). This interest income is lower in 2015 following loan repayments. Removing the impacts of policyholder tax and intercompany interest income, Income before tax was a profit of £275.7m in 2015 compared to a profit of £187.6m in 2014. The increase in Income before tax is primarily due to a release of insurance contract liabilities noted above, lower business transformation costs and lower one off regulatory costs noted in administration expenses below.

Income before tax relating to Life business (which comprises annuities and protection) was £179m in 2015 compared to £97m in 2014. The significant increase is primarily driven by the release in insurance contract liabilities noted above.

In 2015, Pensions business recorded a profit of £48m compared to a profit of £31m in 2014. Pension earnings benefitted from a release of investment contract liabilities as a result of updated assumptions based on experience and lower expenses.

Realised and unrealised losses on investments amounted to £68m (2014: £130m gains) mainly as a result of the company's derisking strategy switching from callable and high yield bonds into gilts and high quality bonds. There were no bond impairments (2014:£nil). Results on fair value items in 2015 amounted to a loss of £19m (2014: loss of £12m), mainly driven by equity hedges to protect the capital position. 2015 had no (2014: £38.8m) business transformation costs related to restructuring charges and costs related to in-sourcing the platform servicing and development.

Net income in 2015 also includes a positive impact of £9.3m (2014: (£2.9m)) from reductions in the UK corporation tax rate. The UK corporation tax rate reduced from 21% to 20% with effect from 1 April 2015. Further reductions to 19% from 1 April 2017 and then to 18% from 1 April 2020 were enacted in The Finance (No 2) Act 2015 with consequential impact on deferred tax balances. There has been no impact on the Net income in 2015 due to changes in the recognition of deferred tax assets relating to excess management expenses previously de-recognised (2014: £12.0m).

Administration expenses were 24% lower in 2015 than 2014 compared to 3% higher in 2014 than 2013. In 2015 there was no (2014:£28.4m) one off costs relating to reviewing and amending client policies to meet the new Department of Work and Pensions (DWP) cap on group pension charges, no costs (2014: £6.5m) relating to meeting the regulatory costs of increased pensions flexibility introduced by the Taxation of Pensions Act 2014 and business transformation expenses £0.3m (2014: £38.8m). Excluding these costs administration expenses were 0.3% lower in 2015 than 2014.

New business production (based on the standard industry measure of new annual premiums plus one-tenth of new single premiums – API) decreased by 16% to £661m (2014: £783m) due to lower sales in group and individual pensions off set against strong platform growth. The platform assets reached £6.4bn by the end of 2015 (2014: £2.7bn) (platform assets include investment products provided by Aegon Investment Solutions Limited).

Market consistent value of new business (MCVNB) is a metric that measures the value of new business written in the year on an economic capital basis. This increased to £(1)m in 2015 (2014: £(9)m) reflecting higher margins primarily on Group pensions business (due to a lower portion of auto-enrolment cases compared to last year), partially offset by lower volumes due to fewer new entrants relating to auto enrolment.

PRA Pillar 1 excess capital for the Company increased over 2015 to £795m at 31 December 2015 (2014: £444m). An analysis of movements in excess capital is detailed in Note 26 (c).

Revenue-generating investments (the total of Investments and Investments for account of policyholders) for the Company decreased to £58 billion (2014 £59.1 billion) primarily as a result of reduction in bond and equity markets.

In summary, in 2015 the Company has delivered increased Life and Pensions profits whilst continuing to invest in the platform focusing on the at-retirement and workplace savings markets. Our award winning platform has continued to gain momentum in the market with assets under management on the platform more than doubling assisted by our strategy to upgrade existing policies and new business such as Retiready onto the digital platform. In addition, in light of the recent market and regulatory changes, development of a further product propositions using the platform is key to ensuring customers have sufficient choice in the pension flexibility environment. These continued developments will position the Company in the broader savings and retirement market across the individual and corporate market.

The Company forms part of the UK segment of Aegon N.V., the ultimate parent undertaking of the Company. The strategy, performance and position of the UK are also discussed in the 'Strategic information' and 'Business overview' sections of the Aegon N.V. annual report, which does not form part of this report.

Corporate governance

The Company has established a governance framework for monitoring and overseeing strategy, conduct of business standards and operations of the business that includes:

- a clearly stated corporate organisational structure, and written terms of reference for the Board and its committees, with appropriate delegated authorities;
- a Board Audit Committee, the members of which are non-executive Directors, which oversees internal control and financial reporting matters;
- a Board Risk Committee, the members of which are non-executive Directors, which oversees risk and capital matters;
- a risk management function providing a second line of defence, independent of operations and with responsibility for monitoring and reporting of risk;
- a regulatory risk function, which is part of the second line of defence, with responsibility for managing the relationship with key regulators, contributing to strategic change, establishing and maintaining the financial crime framework and monitoring and reporting on compliance with regulations, in particular the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA);
- a forward-looking regulatory strategy function that identifies and mitigates risks from future political and regulatory change; and
- an internal audit function which provides independent, objective assurance over the complete control framework reporting to the Chairman of the Board Audit Committee and with direct access to all executive members, including the Chief Executive Officer.

The Board has ten non-executive members and three executive members. The non-executive directors include two representatives from Aegon N.V., the Company's ultimate parent undertaking.

As a financial institution, the Company is also required to comply with rules and guidance issued by the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA), which include high level standards covering Principles for Business and Senior Management Arrangements, Systems and Controls and requirements for the way the firm conducts its business.

Risk and capital management and financial instruments

The Company is exposed to the following financial risks:

Interest rate risk
Equity market risk
Credit risk
Currency risk
Liquidity risk
Expense risk
Pension scheme risk

The main non-financial risks that the Company is exposed to relate to mortality/ morbidity (primarily longevity), lapses, and operational risk including legal, compliance and financial crime risks. The Company is also exposed to broader strategic risk. Together these represent the principal risks and uncertainties for the Company.

Exposure to these risks is monitored by the Scottish Equitable plc Board, and appropriate sub-committees of the Board (in particular the Board Risk and Capital Committee) and appropriate Executive/Management Committees (in particular the Insurance Executive Committee), particularly as part of the Individual Capital Assessment ("ICA") process required by PRA under its Prudential Sourcebook for Insurers.

The Company believes that the measurement of economic capital provides a clear and consistent way to monitor and compare the risks in our businesses. The Company's ICA estimates how much capital is needed to mitigate the risk of insolvency to a selected remote level, based on a number of stress tests applied to the capital position of the business. The ICA works to a 99.5% confidence level of solvency over one year, in line with UK Prudential Regulatory Authority (PRA) regulatory requirements. Additionally economic capital is measured and monitored as part of Aegon N.V.'s economic capital framework. PRA Pillar 1 capital is a regulatory capital requirement also reported by the Company and is monitored as a key measure. The level of additional capital held in the business is set in the form of a capital buffer representing the additional capital targeted in the business to be able to withstand adverse plausible events whilst still being able to meet regulatory capital requirements.

From 1 January 2016, the regulatory capital is measured under the Solvency II regime replacing the ICA and the PRA Pillar 1 capital measures. During the course of the year, the focus of attention has therefore shifted towards the capital requirements under the Solvency II regime. The Solvency Capital Requirement (SCR) works to a 99.5% confidence level of solvency over one year, in line with the SII Directive. Over 2015, the Company successfully applied for the use of a Partial Internal Model to calculate the SCR under SII together with the Matching Adjustment on the Immediate Annuities and the Volatility adjustment on the With Profits business. In addition, the company has successfully applied to use the transitional deductions within the calculation of technical provisions under Solvency II.

The Company also uses financial forecasts to cover the medium-term financial outlook of the business, including forecasts of solvency positions and key performance indicators under a variety of economic and operating scenarios, allowing for new business sales, to inform our capital and risk management decisions. This is a key element of our medium term plan and our Own Risk and Solvency Assessment, as required in preparation for Solvency II.

Fund structure

The Company has a single long-term insurance fund, which is notionally divided into a with-profit sub fund ("WPSF"), and a non-profit sub fund ("NPSF"), consistent with the Scheme of Transfer of business from Scottish Equitable Life Assurance Society to Scottish Equitable plc on 31 December 1993.

Generally all new long-term business of the Company is written in the NPSF which when taken with the shareholder's fund is managed to be independent of capital resources in the WPSF. The investments of the NPSF, otherwise known as general account investments are those where the financial risks are not borne by the policyholder. The risk profile of the NPSF was monitored by reference to Pillar 1 and economic capital positions (in particular Solvency II and the ICA). From 2016, this will be monitored by reference to the Solvency II capital positions. The shareholder has a 100% interest in the NPSF.

The WPSF is a mutual subfund in which the shareholder has no financial interest other than certain charges. The WPSF is closed to all new business including those with investment guarantees (with the exception of certain contractual obligations such as increment premiums) and is managed to be self-supporting in capital terms according to regulatory requirements.

Within the WPSF, investment policy and management actions are set consistent with the Principles and Practices of Financial Management and the Company's aim is to distribute the estate fairly over time at a rate which enables the WPSF to be self supporting in economic solvency terms (currently referencing Pillar 1 Peak 2, the 'realistic' peak, and Pillar 2, the internal capital assessment, of the PRA published solvency requirements, looking forward this will reference the Solvency II regime). The estate also provides a cushion to help meet the cost of guarantees and to protect the fund from the impact of adverse events. The NPSF has an exposure to guarantees once these assets have been exhausted. This exposure is currently considered remote. The NPSF provides administration for the WPSF and therefore bears the operational risk.

Interest Rate Risk
Both the WPSF and NPSF are exposed to interest rate risk.

The WPSF is exposed to falling interest rates on its guaranteed liabilities, its book of annuities in payment and, in particular, on account of guaranteed annuity options, (Guaranteed Minimum Pension) GMP guarantees under Individual Buyout contracts and group deferred annuities. The WPSF's estate has been used to purchase a series of interest rate swaps and swaptions, which provide significant protection against falling interest rates. However, the very long-term and in some cases contingent nature of the liabilities in question makes it difficult to eliminate interest rate risk completely.

The NPSF's exposure to interest rate changes arises substantially on its large book of annuities in payment. Assets are purchased to provide a close expected match to liability outflows, but some residual risk remains. The NPSF also has some group deferred annuity liabilities; as in the WPSF, a shortage of appropriate assets at long durations makes it difficult to eliminate interest rate risk completely.

Equity market risk
The Company's main direct exposure to equity price risk arises within the WPSF, where certain with-profits funds offer guarantees that are backed by equities. This risk has been mitigated to a significant degree. In particular, the estate has been used to purchase a range of equity put options and put spreads which provide protection against equity markets falling below a specified level.

Equity price risk also arises in the NPSF. The Company's unit-linked funds invest heavily in equities, where the investment risk is borne by the Company's unit linked policyholders. The NPSF's exposure is limited to the impact that equity market levels have on annual management charges collected from unitised funds. As these fund-related charges are a significant element of earnings, equity fluctuations can have a significant impact on net income. The NPSF has purchased equity options to reduce the sensitivity of economic capital to significant falls in the UK equity markets.

Property risk
The Company's main direct exposure to property risk arises within the WPSF, where certain with-profits funds offer guarantees that are backed by investments including property. Property risk also arises in the NPSF. The Company's unit-linked funds invest in property, where the investment risk is borne by the Company's unit linked policyholders. The NPSF's exposure is limited to the impact that property valuations have on annual management charges collected from unitised funds.

Credit risk
Credit risk arises in both the WPSF and NPSF where there is significant investment in corporate bonds, particularly within with-profits asset shares and assets backing annuity business. Credit risk in respect of the WPSF estate is minimal as fixed interest assets are gilts.

The Company's general policy is to hold an appropriate spread of assets between counterparties in order to reduce risk. Additionally, the Company would normally expect at least 95% of its fixed interest securities to have credit ratings of BBB or higher.

Credit risk associated with derivatives is substantially reduced through the use of collateralisation on "over-the-counter" derivatives and margining on exchange-traded futures. The Company is also exposed to credit risk relating to reinsurance arrangements, and has in place policies to monitor and manage this risk.

Currency risk

The firm has only a small amount of direct exposure to foreign currency risk but as with equities, has indirect exposure relating to annual management charges collected from unitised funds. Most of the direct risk arises within WPSF asset shares, where the overseas element of overall equity and property exposure is expected to lie in the range 10% - 25%.

The NPSF has substantial investment with foreign currency exposure, through unit-linked funds, where the currency risk is primarily borne by policyholders. The NPSF's exposure is limited to the impact that currency market levels have on annual management charges collected from unitised funds. As there are substantial non-sterling assets, currency movements can significantly impact future annual management charges. On certain US dollar and Euro denominated investments deemed to back annuities in the NPSF, the currency risk has been hedged using derivatives.

Liquidity risk

Liquidity risk is the risk that the Company may have insufficient liquid assets to meet claims as they become due. As the Company has few guaranteed surrender values, invests almost exclusively in tradable securities including a significant proportion of highly liquid assets and has cash flows broadly aligned to annuity outgoings, this is not generally a significant risk. In respect of unit-linked commercial property funds, the Company has the right to defer payment of certain withdrawals to allow for the orderly sale of properties so as to provide liquidity for the fund.

Mortality and morbidity risk

The Company's main exposure is to longevity risk relating to annuities, which is the risk of annuitants living longer than anticipated. Regulatory reserves are held in respect of this risk based on current assumptions. The Company has entered into reinsurance agreements, which transferred longevity risk for certain cohorts of business to a reinsurer.

In respect of morbidity risk and mortality risk related to life insurance the general approach adopted by the Company is to limit risk through widespread use of reinsurance. Currently this results in reinsurance of around 90% of the benefit at risk for long-term individual protection business and 60% for group protection business, which was closed to new business in 2009. Variations from this level will occur from time to time to reflect the terms available in the market, the type of business (life, critical illness, permanent health insurance) and the length of risk involved.

Lapse risk

The Company is exposed to lapse risk under contracts where it takes a number of years for annual charges to recoup expenses incurred. The Company has a number of processes in place, which are designed to improve the retention of in-force business.

Expense risk

This is the risk that expenses increase by more than income due to inflation and other factors. The Company has in place expense management processes to manage this risk.

Operational risk

The Company manages its operational risk to mitigate exposures against risk appetite across the business. Operational risk includes regulatory risk, which is the risk of non-compliance with statutory and regulatory requirements including those arising from financial crime. The oversight of our operational risk exposures is through the second line of defence Risk Function with reporting of risk exposures and incidents to the Board Risk and Capital Committee.

Pension scheme risk

A defined benefit pension scheme is operated by Aegon UK plc, which was closed to future accrual in 2013. The Company receives recharges from service companies based on employer contributions to the scheme. The Company's ICA capital position includes the pension scheme. This exposes the Company to significant interest rate, equity, inflation and longevity risk.

Strategic risk

Strategic risk is the risk of loss or reduced earnings due to inappropriate strategic decisions and/or implementation of these decisions. This includes consideration of regulatory and market changes such as the impacts of Solvency II and Pensions Reform. A key role of the Board is to focus on the Company's strategy and ensure the necessary resources are in place to meet the Company's objectives, assisted by the Board Risk and Capital Committee, which considers all risk matters relating to the Company. The overall governance framework is described in the Corporate Governance section above.

By order of the Board

James MacKenzie
Company Secretary
Aegon Lochside Crescent
Edinburgh Park, Edinburgh
23 March 2016

SCOTTISH EQUITABLE PLC
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

The Directors present their report and the audited Company financial statements for the year ended 31 December 2015.

Structure of these accounts

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 December 2015 and applied in accordance with the Companies Act 2006.

The Company has made use of the CA 2006 S400 exemption from preparing consolidated financial statements.

Financial results

The income before tax of the Company is a profit of £295.7m (2014: profit of £230.7m restated refer note 1.1.3). No interim dividends were paid during the year (2014: nil). The Directors do not propose a final dividend payment for the year ended 31 December 2015 (2014: nil).

Directors

The current Directors of the Company are shown on page 1. The following appointment/resignations occurred throughout the year. All other Directors served throughout the year.

Name of Director	Date of Appointment	Date of Resignation
David M Dalton-Brown	11.09.2015	-
Karen R Wright	18.05.2015	-
Michael R Tuohy	-	10.12.2015

Employees

It is Aegon's policy to ensure equal opportunities for all employees of the Aegon UK Group. The only criteria considered for the recruitment or promotion of staff is suitability for the position, regardless of sex, marital status, age, religion, ethnic origin or disability (having due regard to the individual's aptitudes and abilities). It is our policy, wherever possible, to continue the employment of staff who have become disabled (with appropriate re-training when required). No discrimination is made against disabled employees with regard to training, career development or promotion.

By means of regular announcements and staff briefings and meetings with the independent trade unions, AEGIS and UNITE, Aegon has maintained its policy of providing information and consulting on matters likely to affect the interests of staff.

Political contributions

No political contributions were made during the year (2014: nil).

Going concern

In assessing whether the Company is a going concern the Directors have taken into account the guidance issued by the Financial Reporting Council in October 2009.

The Strategic Report includes a review of the Company's business and a description of the Company's risk and capital management (including liquidity risk). In addition, the financial statements include notes on capital and solvency (note 26), capital commitments, contingent liabilities and charges (note 27) and risk management (note 28).

The economic outlook for 2016 remains uncertain and there will be further challenges and opportunities that continue to arise through regulatory and market changes. The Directors consider that the Company has the plans and resources to manage its business risks successfully despite this economic and regulatory uncertainty through its plans for focussing on the digital solutions proposition and upgrading existing customers to this new platform.

As noted in the liquidity risk section the Company has significant liquid assets to enable it to meet liabilities as they fall due. Additionally in reaching a conclusion on going concern the Directors have considered projected regulatory capital positions in both normal and stressed scenarios together with the availability of a range of management actions.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

<u>Independent Auditors</u>
In accordance with s489 of the Companies Act 2006 a resolution proposing that PricewaterhouseCoopers LLP be reappointed as auditors of the Company will be put to the Annual General Meeting. A resolution authorising the Directors to set the auditors' remuneration will also be proposed at the Annual General Meeting.

<u>Disclosure of information to auditors</u>
The directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware; and each director has taken all steps that he ought to have taken as director to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

By order of the Board

James Mackenzie
Company Secretary
Aegon Lochside Crescent
Edinburgh Park
Edinburgh
23 March 2016

SCOTTISH EQUITABLE PLC
STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2015

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union),have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SCOTTISH EQUITABLE PLC

Report on the financial statements

Our opinion

In our opinion, Scottish Equitable Plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its net income 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

Scottish Equitable Plc's financial statements comprise:

- Statement of Financial Position as at 31 December 2015;
- Income statement for the year ended;
- Statement of Comprehensive Income for the year then ended;
- Cashflow statement for the year then ended;
- 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 matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors 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.

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 in relation to the Financial Statements set out on page 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 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 Strategic report, Directors report 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.

Catrin Thomas

Catrin Thomas (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh

23 March 2016

SCOTTISH EQUITABLE PLC
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015	2014*
		£m	£m
Income			
Premium income		**4,099.9**	3,917.1
Investment income	3	**1,686.7**	1,692.7
Fee and commission income		**16.2**	15.8
Total revenues		**5,802.8**	5,625.6
Income from reinsurance ceded		**226.5**	298.4
Results from financial transactions	4	**115.4**	3,670.0
Total income		**6,144.7**	9,594.0
Charges			
Premiums to reinsurers		**344.0**	344.3
Policyholders claims and benefits	5	**5,036.2**	8,463.4
Commissions and expenses	6	**465.8**	547.1
Interest charges and related fees	8	**3.0**	8.5
Total charges		**5,849.0**	9,363.3
Income before tax		**295.7**	230.7
Income tax charge	9	**(45.1)**	(55.2)
Net income attributable to equity holders of Scottish Equitable plc		**250.6**	175.5

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

SCOTTISH EQUITABLE PLC
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £m	2014* £m
Net income		**250.6**	175.5
Items that may be reclassified to profit or loss:			
Net gains on cash flow hedges	18.2	**-**	-
Net gains for sale investments	18.2	**(21.7)**	11.6
Tax relating to components of other comprehensive income	18.2	**4.4**	(2.5)
Other comprehensive (loss)/income for the year		**(17.3)**	9.1
Total comprehensive income attributable to equity holders of Scottish Equitable plc		**233.3**	184.6

All of the amounts above are in respect of continuing operations.

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

SCOTTISH EQUITABLE PLC
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Note	2015 £m	2014* £m
Assets			
Investments in subsidiaries	10	**0.3**	0.3
Investments	11	**10,261.8**	10,339.8
Investments for account of policyholders	12	**47,690.1**	48,773.6
Derivatives	13	**752.9**	695.8
Reinsurance assets	14	**507.8**	488.4
Deferred expenses	15	**2,005.2**	2,084.4
Other assets and receivables	16	**555.2**	554.2
Cash and cash equivalents	17	**559.7**	716.2
Total assets		**62,333.0**	63,652.7
Equity and liabilities			
Shareholders' equity	18	**2,521.7**	2,288.4
Insurance contracts	19	**8,851.4**	9,497.5
Insurance contracts for account of policyholders	20	**9,397.7**	5,284.8
Investment contracts	21	**337.0**	290.0
Investment contracts for account of policyholders	22	**39,072.2**	44,291.7
Derivatives	13	**431.3**	395.0
Deferred revenue liabilities	23	**839.0**	818.4
Deferred tax liabilities	24	**157.9**	45.1
Other liabilities	25	**724.8**	741.8
Total liabilities		**59,811.3**	61,364.3
Total equity and liabilities		**62,333.0**	63,652.7

*Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

The financial statements were approved by the Board of Directors and are signed on its behalf by

Adrian T Grace
23 March 2016

Clare J Bousfield

SCOTTISH EQUITABLE PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Share capital £m	Capital contributions £m	Revaluation reserves £m	Retained earnings £m	Total shareholders' equity £m
At 1 January 2015		625.0	1,244.2	24.1	395.1	2,288.4
Net income recognised in the income statement		-	-	-	250.6	250.6
Other comprehensive income:						
Revaluations	18.2	-	-	(4.9)	-	(4.9)
(Gains)/losses transferred to income statement on disposal and impairment	18.2	-	-	(16.8)	-	(16.8)
Aggregate tax effect of items recognised in other comprehensive income	18.2	-	-	4.4	-	4.4
Total other comprehensive income		-	-	(17.3)	-	(17.3)
Total comprehensive income for 2015		-	-	(17.3)	250.6	233.3
Capital contribution from parent		-	-	-	-	-
At 31 December 2015	18	625.0	1,244.2	6.8	645.7	2,521.7

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Share capital £m	Capital contributions £m	Revaluation* reserves £m	Retained* earnings £m	Total shareholders' Equity* £m
At 1 January 2014		625.0	1,228.6	15.0	219.6	2,088.2
Net income recognised in the income statement		-	-	-	175.5	175.5
Other comprehensive income:						
Revaluations	18.2	-	-	26.7	-	26.7
(Gains)/losses transferred to income statement on disposal and impairment	18.2	-	-	(15.1)	-	(15.1)
Aggregate tax effect of items recognised in other comprehensive income	18.2	-	-	(2.5)	-	(2.5)
Total other comprehensive income		-	-	9.1	-	9.1
Total comprehensive income for 2014		-	-	9.1	175.5	184.6
Capital contribution from parent		-	15.6	-	-	15.6
At 31 December 2014	18	625.0	1,244.2	24.1	395.1	2,288.4

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

SCOTTISH EQUITABLE PLC
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £m	2014 * £m
Income before tax		**295.7**	230.7
Results from financial transactions	4	**(115.4)**	(3,670.0)
Amortisation and depreciation		**83.4**	54.9
Impairment charges	7	**-**	-
Adjustments of non-cash items		**(32.0)**	(3,615.1)
Insurance and investment liabilities		**(625.0)**	842.3
Insurance and investment liabilities for account of policyholders		**(1,077.1)**	1,608.6
Accrued income and prepayments		**74.6**	(27.8)
Accrued expenses and other liabilities		**106.9**	27.2
Changes in accruals		**(1,520.6)**	2,450.3
Purchase of investments (other than money market investments)		**(941.6)**	(1,931.6)
Purchase of derivatives		**(616.2)**	(448.2)
Disposal of investments (other than money market investments)		**602.6**	1,767.4
Disposal of derivatives		**579.2**	409.8
Net disposal of investments for account of policyholders		**1,560.5**	962.5
Net disposal of money market investments		**47.8**	7.0
Net change in cash collateral		**(83.1)**	323.0
Cash flow movements on operating items not reflected in income		**1,149.2**	1,089.9
Tax paid		**(46.8)**	(4.7)
Net cash flows from operating activities		**(154.5)**	151.1
Repayment of loans by parent undertakings		**-**	88.4
Net cash flows from investing activities		**-**	88.4
Repayment of borrowings		**-**	(58.3)
Capital contribution from parent company		**-**	15.6
Net cash flows from financing activities		**-**	(42.7)
Net (decrease) / increase in cash and cash equivalents[1]		**(154.5)**	196.8
Net cash and cash equivalents at 1 January	17	**714.1**	517.3
Net cash and cash equivalents at 31 December	17	**559.6**	714.1

[1]Included in net increase in cash and cash equivalents are interest received £879.9m (2014: £917.8m), dividends received £772.3m (2014: £723.9m) and interest paid £3.0m (2014: £9.1m).

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

The cash flow statement is prepared according to the indirect method.

1. Summary of significant accounting policies

1.1. Basis of preparation

1.1.1. Introduction

The financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 December 2015 and applied in accordance with the Companies Act 2006. The financial statements have been prepared in accordance with the historical cost convention as modified by those financial instruments (including derivatives) and financial liabilities that have been measured at fair value.

The Company has made use of the CA 2006 S400 exemption from preparing consolidated financial statements.

The financial statements of Scottish Equitable plc for the year ended 31 December 2015 were authorised for issue, in accordance with a resolution of the directors, on 23 March 2016.

1.1.2. Adoption of new IFRS accounting standards

New standards and amendments to standards become effective at the date specified by IFRS, but may allow companies to opt for an earlier adoption date. In 2015, the following amendments to existing standards issued by the IASB became mandatory but are not currently relevant or do not significantly impact the financial position or financial statements:

- IAS 19 Employee Benefits - Amendment Employee Contributions;
- Annual improvements 2010-2012 Cycle; and
- Annual improvements 2011-2013 Cycle.

The above new standards, amendments to existing standards and interpretations have been endorsed by the European Union.

1.1.3. Voluntary change in accounting policies

The Company adopted voluntary changes in accounting policies, effective 1 January 2015, which were applied retrospectively for all periods presented. Changes to these policies relate to a change in valuation basis for insurance liabilities and reinsurance assets. Adoption of this change in policy has necessitated the reclassification of financial assets from available-for-sale to fair value through profit or loss. As a result, cash flow hedges associated with the assets held to back the annuity liabilities will no longer be effective as specified by IAS 39 Financial instruments Recognition and Measurement thus the cash flow hedge accounting will cease prospectively from 1 January 2015.

Details of these changes in accounting policies are provided in the paragraphs below.

a) Financial liabilities

The Company has changed the valuation methodology used for its non-profit fund annuity liabilities to use current economic and non-economic assumptions as permitted by IFRS 4 Insurance Contracts. This change removes an inconsistency between the valuation of the assets, which are valued at fair value, and the liabilities, which were previously, valued using locked-in assumptions determined at the date of inception of the policy. By removing this inconsistency, the directors believe that the Company will thereby provide the users of the financial statements with more relevant information, which is no less reliable.

The valuation interest rate for these annuity liabilities is calculated using the gross redemption yield on the assets backing the portfolio of liabilities after making an appropriate allowance for credit defaults. The non-economic assumptions reflect the Company's current assumption of future experience. Both the economic and non-economic assumptions will be reviewed and updated as appropriate at each valuation date.

Under this accounting policy, liabilities are valued using best-estimate assumptions. This would result in all the profit margin in a contract being realised when it is written. However, to allow for more suitable profit recognition a deferred income reserve ('DIR') has been introduced as part of this accounting policy change to ensure no profit is recognised immediately when a contract is written. This is consistent with the previous accounting policy. This reserve is then released over the expected life of the policy.

For each cohort of new business, the profit margin generated in the first year is deferred within the DIR. The DIR liability is released through the income statement over the expected duration of the contract. The amortisation profile is calculated based on the expected cashflows over the life of the product at the time of sale. This amortisation profile is locked-in in the year the contract is written.

Previously reinsurance contracts were valued using a locked in basis at inception. The accounting policy change has been applied to reinsurance contracts in a consistent manner as it has been applied to non-profit fund annuity liabilities. The value of the reinsurance contract is calculated as the difference between the present value of the fixed payments to the reinsurer (as agreed under the reinsurance treaty) and the payments received from the reinsurer, which reflect expected annuitant mortality.

If the value of the expected payments to the reinsurer is lower than the value of the expected payments to be received from the reinsurer, the difference is held as a reinsurance asset. If the value of the expected payments to the reinsurer is greater than the value of the expected payments to be received from the reinsurer, the difference is held as a reinsurance payables.

The accounting policy for insurance contracts is disclosed in note 1.22 and actuarial assumptions are detailed in note 2.2. Details of the impact of the adjustments on previous periods of the financial statements are provided in the tables presented below.

b) Financial assets

The Company has reclassified its annuity backing debt securities from available-for-sale to fair value through profit or loss in accordance with the policy set out in note 1.13. This thereby reduces the accounting mismatch that would otherwise arise from treating the movement in assets on a different basis to the movement in underlying insurance liabilities, which is in accordance with IFRS 4 *Insurance Contracts.* By applying this change in classification of financial assets, the movements in fair value of the assets are recognised in the income statement as incurred instead of through other comprehensive income.

IFRS 7 *Financial Instruments: Disclosures* requires additional disclosures when financial instruments are reclassified, these are detailed in note 11 of the notes to the financial statements.

Details of the impact of the adjustments on previous periods of the financial statements are provided in the tables presented below.

c) Hedge accounting

Following the reclassification of the annuity backing debt securities from available-for-sale to fair value through profit or loss, the Company has discontinued the cash flow hedging from 2015 with appropriate restatement of the 2014 cash flow hedge accounting to align with the change in the underlying bonds. This is in line with the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* and the derivatives will not be designated for hedging which will result in gains and losses offsetting the losses and gains of the debt securities in the income statement.

IAS 39 states that a reallocation of the gains and losses on hedging instruments as described above constitutes a reclassification per IAS 1 *Presentation of Financial Statements.* Note 18.2 in the notes to the financial statements discloses this reclassification in line with IAS 1.

Details of the impact of the adjustments on previous periods of the financial statements are provided in the tables presented below.

Impact of voluntary changes in accounting policies on the income statement

	YTD 2014 (previously reported)	Change in accounting policy	YTD 2014 (restated)
	£m	£m	£m
Investment income (Note 3)	1,682.5	10.2	1,692.7
Income from reinsurance ceded	301.6	(3.2)	298.4
Results from financial transactions (Note 4)	2,711.4	958.6	3,670.0
Policyholder claims and benefits (Note 5)	(7,532.0)	(931.4)	(8,463.4)
Income tax (Note 9)	(33.9)	(21.3)	(55.2)
Net effect		**12.9**	

Impact of voluntary changes in accounting policies on the statement of other comprehensive income

	YTD 2014 (previously reported)	Change in accounting policy	YTD 2014 (restated)
	£m	£m	£m
Consisting of changes in:			
Net losses on cash flow hedges	(11.8)	11.8	-
Net gains on available-for-sale investments	992.2	(980.6)	11.6
Tax relating to components of other comprehensive income	(210.8)	208.3	(2.5)
Net effect	**769.6**	**(760.5)**	**9.1**

Impact of voluntary changes in accounting policies on the statement of financial position

	YTD 2014 (previously reported)	Change in accounting policy	YTD 2014 (restated)	YTD 2013 (previously reported)	Change in accounting policy	YTD 2013 (restated)
	£m	£m	£m	£m	£m	£m
Reinsurance assets (Note 14)	468.9	19.5	488.4	452.7	22.7	475.4
Shareholders' equity (Note18)	3,941.1	(1,652.7)	2,288.4	2,993.3	(905.1)	2,088.2
Insurance contracts (Note 19)	8,213.9	1,283.6	9,497.5	8,201.5	346.7	8,548.2
Deferred revenue liabilities (Note 23)	16.5	801.9	818.4	20.4	807.5	827.9
Deferred tax liabilities (Note 24)	458.4	(413.3)	45.1	303.0	(226.3)	76.7

Impact of voluntary changes in accounting policies on the statement of changes in equity

	YTD 2014 (previously reported) £m	Change in accounting policy - £m	YTD 2014 (restated) £m
Retained earnings (Note 18)	749.4	(354.3)	395.1
Revaluation reserves (Note 18.2)	1,322.5	(1,298.4)	24.1
Shareholders' equity		**(1,652.7)**	

Impact of voluntary changes in accounting policies on the statement of cash flow

	YTD 2014 (previously reported) £m	Change in accounting policy £m	YTD 2014 (restated) £m
Income before tax	196.5	34.2	230.7
Results from financial transactions (Note 4)	(2,711.4)	(958.6)	(3,670.0)
Release of cashflow hedging reserve	10.2	(10.2)	-
Insurance and investment liabilities	(92.3)	934.6	842.3
		-	

1.1.4. *Future adoption of new accounting standards*

The following standards, amendments to existing standards and interpretations, published prior to January 1, 2016, were not early adopted by the Company, but will be applied in future years:

- IFRS 9 Financial Instruments*; and
- IFRS 15 Revenue from Contracts with Customers*.

* Not yet endorsed by the European Union.

IFRS 9 *Financial Instruments* - The IASB issued the final version of IFRS 9 Financial Instruments in July 2014. IFRS 9 combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will eventually replace IAS 39 and all previous versions of IFRS 9. Application is required for annual periods beginning or after January 1, 2018. Under the Classification and Measurement component financial assets are measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. The classification and measurement of financial liabilities is unchanged from existing requirements apart from own credit risk. For financial liabilities that are measured at fair value through profit or loss, the changes which are attributable to the change in an entity's own credit risk are presented in other comprehensive income, unless doing so would enlarge or create an accounting mismatch. For the Impairment component, the IASB included requirements for a credit loss allowance or provision, which should be based on expected losses rather than incurred losses. On November 19, 2013, the IASB issued a new version of Hedge Accounting, which includes the new hedge accounting requirements. Macro hedging is decoupled from the hedge accounting component in order to avoid impact on the effective date or timing of the completion of the IFRS 9 project. IFRS 9 is expected to have a significant impact on the Company's financial statements because it will likely result in a reclassification and remeasurement (including impairment) of the Company's financial assets. The full impact will only be clear after full assessment of the standard.

IFRS 15 *Revenue from Contracts with Customers* - In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 will replace IAS 18 Revenue, as well as other IFRIC and SIC interpretations regarding revenue unless the contracts are within the scope of other standards (for example, financial instruments, insurance contracts or lease contracts). The standard outlines the principles an entity shall apply to measure and recognize revenue and the related cash flows. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 will be effective for the Company on January 1, 2018, using either of two methods: a full retrospective approach with certain practical expedients or a modified retrospective approach with the cumulative effect of initially applying this standard recognised at the date of initial application with certain additional disclosures. We are evaluating the impact that adoption of this standard is expected to have on the Company's financial statements. The full impact will only be clear after full assessment of the standard.

The following amendments to the existing standard and interpretation, published prior to January 1, 2015, which are not yet effective for or early adopted by the Company, will not significantly impact the financial position or financial statements:

- IFRS 10, IFRS 12 and IAS 28 - Investment Entities: Applying the Consolidation Exception*;
- IFRS 10 and IAS 28 - Amendment Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;
- IFRS 11 Joint Arrangements - Amendment Accounting for Acquisition of Interests in Joint Operations*;
- IFRS 14 Regulatory Deferral Accounts*;
- IAS 1 Amendment Disclosure Initiative*;
- IAS 27 Separate Financial Statements - Amendment Equity method in Separate Financial Statements*;
- IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization*; and
- Annual improvements 2012-2014 Cycle*.

* Not yet endorsed by the European Union.

1.1.5. Future adoption of voluntary change in accounting policies

On January 13, 2016, Aegon NV provided an update on its strategic plans at its Analyst & Investor Conference. In line with this update the Company will make voluntary changes in accounting policies, effective 1 January 2016, to reflect its strategic priorities. The voluntary changes in accounting policies will be applied retrospectively. Firstly, the company will adopt a group-wide accounting policy for reinsurance transactions that are entered into as part of a plan to exit a business when using reinsurance as means to exit businesses. Also, the company will make two voluntary accounting policy changes that better reflect its business strategy after restructuring in the United Kingdom of the business in Scottish Equitable plc.

In the paragraphs below, details are provided for these changes in accounting policies including the impact on shareholders equity and net income.

a) Accounting related to certain reinsurance transactions

The Company will adopt, consistent with Aegon NV, an accounting policy for reinsurance transactions that are entered into as part of a plan to exit a business. The existing accounting policy records a deferred cost of reinsurance, which is subsequently amortised. Under the new accounting policy, when the company enters into a reinsurance contract as a plan to exit a business, an immediate gain or loss will be recognised in the income statement.

For the purposes of this accounting policy, a business is defined as "designated insurance liabilities to be disposed off through reinsurance transactions". The insurance liabilities are designated according to their homogenous risk profiles, possible examples include but are not limited to geographical area, product type, distribution channel, policyholder profiles, and policy form or riders. There is no current impact of this accounting policy change on the Company.

b) Insurance accounting for business in United Kingdom

In January 2016, Aegon announced the restructuring of its business and operations in the UK. This involves splitting the Company's business into three components for management purposes: the annuity business, the traditional pension book and the new digital solutions platform. By separately managing the digital solutions platform from the rest of the business, management aims to ensure the focus and separate culture required to successfully build a viable and sustainably growing business over the longer term. In addition, a significant programme to upgrade policyholders from the traditional pensions products to new platform based products is underway and is expected to continue over the next 3 years.

The Company will make two voluntary accounting policy changes that better reflect its business strategy after restructuring. The changes involve; the aggregation level at which the recoverability of the DPAC asset and the liability adequacy test are carried out, and a change to de-recognise contracts when a substantial modification is made to these contracts.

Level of aggregation
The current accounting policy for the level at which the recoverability of DPAC is assessed and the liability adequacy test is conducted is on a geographical basis, therefore the Company's total book is considered as one population as this is all based in the UK. As noted above, in the announced restructuring, the Company's business has been split into different portfolios that will be managed independently from one another. Management is of the opinion that the recoverability of DPAC and the liability adequacy test should be disaggregated to a portfolio level to reflect this change in strategy. This change in the definition of portfolio for the Company will be consistent with the Company's manner of acquiring, servicing and measuring the profitability of its insurance contracts, being three separate portfolios: the annuity business, the traditional pensions book and the new digital solutions platform.

Substantial modification
The current accounting policy for the Company is to derecognise insurance contracts only when legal extinguishment occurs. The Company has decided to change its accounting policy from 1 January 2016 to include specific consideration of contract modification, rather than solely legal extinguishment, and use the framework included in IAS 39 that deals with the modification and de-recognition of a financial instrument. This criterion considers whether substantially differing terms exist between the existing contract and the new contract under the modification.

Critical estimates/judgments
There are two key judgements/critical estimates that are made in the adoption of these two accounting policy changes;
(a) the Board's plan for upgrading customers from the traditional pensions book to the new digital solutions platform. The timing of upgrades in this plan impact the resulting cash flows expected from the traditional pensions book portfolio when assessing the recoverability of DPAC; and
(b) whether the changes made and planned to upgraded contracts represent substantial modifications of the customers' existing contracts. Under the new accounting policies, these contracts meet the threshold of substantial modifications.

Impact of changes in accounting policy on the 2016 and 2015 financial statements
As required by IAS 8 *'Accounting policies, changes in accounting estimates and errors'* both changes in accounting policy will be applied retrospectively from the adoption date of 1 January 2016 coinciding with the commencement of the restructuring in 2016 and will be presented in the comparatives of the financial statements for the year ended 31 December 2016. The 2015 financial statements have been prepared under the existing accounting policies and therefore are unaffected by these changes. However, in the 2016 financial statements the changes to the 2015 comparatives are expected to decrease net income for the year ended 2015 by approximately £840 million. The impact above also reflects the total impact on shareholders' equity at the date of adoption (1 January 2016) as there is no impact on the 2014 income statement. Further, as a result of the accounting policy change the premiums and claims figures will be impacted in the 2015 comparative income statement, increasing by £1,896.5m, reflecting the de-recognition of the traditional pension policies and the recognition of the newly upgraded platform policies in 2015.

The Company considers that these changes are appropriate as they represent more relevant and no less reliable information for the users of the financial statements, as required by IFRS 4 – *'Insurance contracts'*.

1.2. <u>Foreign currency translation</u>
Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the rate of exchange prevailing at the balance sheet date. Exchange differences on monetary items are recognised in the income statement when they arise, except when they are deferred in other comprehensive income as a result of a qualifying cash flow hedge.

1.3. Offsetting of assets and liabilities

Financial assets and liabilities are offset in the balance sheet when the Company has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis or simultaneously.

1.4. Premium income

Gross premiums, including recurring and single premiums, from insurance contracts and from investment contracts with discretionary participation features are recognised as revenue when they become receivable.

1.5. Investment income

For interest-bearing assets, interest is recognised as it accrues and is calculated using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial assets or liabilities are recognised as an adjustment to the effective interest rate of the instrument. Investment income includes the interest income and dividend on financial assets carried at fair value through profit or loss. Investment income also includes dividends accrued and rental income due, as well as fees received for security lending.

1.6. Fee and commission income

Fees and commissions from investment management services are recognised as revenue over the period in which the services are performed.

1.7. Policyholder claims and benefits

Policyholder claims and benefits consist of claims and benefits paid to policyholders, including benefit claims in excess of account value for products for which deposit accounting is applied, and the change in the valuation of liabilities for insurance and investment contracts. It includes internal and external claims handling costs that are directly related to the processing and settlement of claims.

Claims payable on maturity are accounted for when due for payment, and claims payable on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the relevant liability.

1.8. Results from financial transactions

Results from financial transactions include:

Net fair value change on general account financial investments at fair value through profit or loss, other than derivatives

Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives, include fair value changes of financial assets carried at fair value through profit or loss. The net gains and losses do not include interest or dividend income.

Realised gains and losses on financial investments

Gains and losses on financial investments include realised gains and losses on general account financial assets, other than those classified as at fair value through profit or loss.

Net fair value change on derivatives

All changes in fair value are recognised in the income statement, unless the derivative has been designated as a hedging instrument in a cash flow hedge.

Net fair value change on for account of policyholder financial assets at fair value through profit or loss

Net fair value change on for account of policyholder financial assets at fair value through profit or loss include fair value movements of investments held for account of policyholders. The net fair value change does not include interest or dividend income.

Other

In addition, results from financials transactions include gains/losses on real estate (general account and account of policyholder).

1.9. Commissions and expenses

Aegon UK Corporate Services Limited, a fellow subsidiary of Aegon UK plc, provides services to the Aegon UK Group and in particular employ those personnel who provide services to the Company. Therefore, the Company has no employees under contracts of service. All administrative expenses are recharged by these service companies to the Company. In respect of share-based payments, the recharges from the service companies are based on the expense calculated in accordance with IFRS 2 (share based payment). In respect of the defined benefit pension scheme operated by the Aegon UK plc group, recharges from the service companies are based on employer contributions to the scheme.

1.10. Interest charges and related fees

Interest charges and related fees includes interest expense on borrowings. Interest expense on borrowings carried at amortised cost is recognised in profit or loss using the effective interest method.

1.11. Intangible assets

Intangible assets comprise software assets that are recognised to the extent that the assets can be identified, are controlled by the Company, are expected to provide future economic benefits and can be measured reliably. Software assets are carried at cost less accumulated depreciation and impairment losses. Depreciation of the asset is over its useful life as the future economic benefits emerge and is recognised in the income statement as an expense. The depreciation period and pattern are reviewed at each reporting date, with any changes recognised in the income statement. A software asset is derecognised when it is disposed of or when no future economic benefits are expected from its use or disposal.

1.12. Investments in subsidiaries

Investments in subsidiaries are accounted for at fair value. Movements in fair value are taken to net income of the Company.

1.13. Investments

Investments for general account comprise financial assets, excluding derivatives.

Financial assets are recognised on the trade date when the Company becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased.

Classification

The Company designates financial assets as fair value through profit or loss when by doing so it significantly reduces the accounting mismatch that would arise from measuring assets on a different basis to the underlying insurance liabilities. Financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell in the near future or for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, are accounted for as loans. All remaining non-derivative financial assets are classified as available-for-sale.

Measurement

Financial assets are initially recognised at fair value excluding interest accrued to date plus, in the case of a financial asset not at fair value through profit or loss, any directly attributable incremental transaction costs. Loans are subsequently carried at amortised cost using the effective interest rate method. Financial assets at fair value through profit or loss are measured at fair value with all changes in fair value recognised in the income statement as incurred. Available-for-sale assets are recorded at fair value with unrealised changes in fair value recognised directly in other comprehensive income. Financial assets that are designated as hedged items are measured in accordance with the requirements for hedge accounting.

Amortised Cost

The amortised cost of a debt instrument is the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between the initial amount and the maturity amount, and minus any reduction for impairment. The effective interest rate method is a method of calculating the amortised cost and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the debt instrument or, when appropriate, a shorter period to the net carrying amount of the instrument. When calculating the effective interest rate, all contractual terms are considered. Possible future credit losses are not taken into account. Charges and interest paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts are included in the calculation.

Fair Value

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). For quoted financial assets for which there is an active market, the fair value is the bid price at the balance sheet date. In the absence of an active market, fair value is estimated by using present value based or other valuation techniques. Where discounting techniques are applied, the discount rate is based on current market rates applicable to financial instruments with similar characteristics. The valuation techniques that include non-market observable inputs can result in a different outcome than the actual transaction price at which the asset was acquired. Such differences are not recognised in the income statement immediately but are deferred. They are released over time to the income statement in line with the change in factors (including time) that market participants would consider in setting a price for the asset. Interest accrued to date is not included in the fair value of the financial asset.

Derecognition

A financial asset is derecognised when the contractual rights to the asset's cash flows expire, when the Company has transferred the asset and substantially all the risks and rewards of ownership, or when the Company has transferred the asset without transfer of substantially all the risks and rewards of ownership, provided the other party can sell or pledge the asset. Financial assets, in respect of which the Company has neither transferred nor retained all the risks and rewards, are recognised to the extent of the Company's continuing involvement. If significantly all risks are retained, the assets are not derecognised. On derecognition, the difference between the disposal proceeds and the carrying amount is recognised in the income statement as a realised gain or loss. Any cumulative unrealised gain or loss previously recognised in the revaluation reserve in shareholders' equity is also recognised in the income statement.

Stock lending

Financial assets that are lent to a third party are not derecognised as the Company retain substantially all risk and rewards of the asset. Financial assets that have been received under repurchase or reverse repurchase agreements are not recognised on the balance sheet as the counterparty retains substantially all the risk and rewards of the asset.

Collateral

With the exception of cash collateral, assets received as collateral are not separately recognised as an asset until the financial asset they secure is foreclosed. When cash collateral is recognised, a liability is recorded for the same amount.

1.14. <u>Investments for account of policyholders</u>

Investments held for account of policyholders consist of investments in financial assets, excluding derivatives, as well as investments in real estate. Investment return on these assets is passed on to the policyholder. Also included are the assets held by consolidated investment funds that are backing liabilities towards third parties. All financial asset investments for account of policyholder have been designated as at fair value through profit or loss. The accounting principles for financial assets are the same as those applicable to general account investments, as described in note 1.13.

Real Estate

Investments in real estate is property held to earn rentals or for capital appreciation, or both. Considering the Company's asset/liability management policies, under which both categories of property can be allocated to liabilities resulting from insurance and investment contracts, both are presented as investments.

All property is initially recognised at cost. Subsequently, investments in real estate are measured at fair value with the changes in fair value recognised in the income statement. On disposal of an asset, the difference between the net proceeds received and the carrying amount is recognised in the income statement. Valuations of investments in real estate are conducted with sufficient regularity to ensure the value correctly reflects the fair value at the balance sheet date. Valuations are mostly based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. If such information is not available, other valuation methods are applied, considering the current cost of reproducing or replacing the property, the value that the property's net earning power will support and the value indicated by recent sales of comparable properties.

1.15. Derivatives

Definition

Derivatives are financial instruments, classified as held for trading financial assets, whose value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date. Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities.

Measurement

All derivatives are recognised on the balance sheet at fair value. The fair value is calculated net of the interest accrued to date and is based on market prices, when available. When market prices are not available, other valuation techniques, such as option pricing or stochastic modelling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data, when available. All changes in fair value are recognised in the income statement unless the derivative has been designated as a hedging instrument in a cash flow hedge.

Hedge accounting

To qualify for hedge accounting, the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge (which includes the item and risk that is being hedged), the derivative that is being used and how hedge effectiveness is being assessed. A derivative has to be effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The effectiveness of the hedging relationship is evaluated on a prospective and retrospective basis using qualitative and quantitative measures of correlation. Qualitative methods may include comparison of critical terms of the derivative to the hedged item. Quantitative methods include a comparison of the changes in the fair value or discounted cash flow of the hedging instrument to the hedged item. A hedging relationship is considered effective if the results of the hedging instrument are within a ratio of 80% to 125% of the result of the hedged item.

Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk of a forecast transaction or a recognised asset or liability and could affect profit or loss. To the extent that the hedge is effective, the change in the fair value of the derivative is recognised in other comprehensive income. Any ineffectiveness is recognised directly in the income statement. The amount recorded in equity is released to income statement to coincide with the hedged transaction, except when the hedged transaction is an acquisition of a non-financial asset or liability. In this case, the amount in equity is included in the initial cost of the asset or liability.

Hedge accounting is discontinued prospectively for hedges that are no longer considered effective. When hedge accounting is discontinued for a cash flow hedge because the cash flow is no longer expected to occur, the accumulated gain or loss in shareholders' equity is recognised immediately in the income statement. In other situations where hedge accounting is discontinued for a cash flow hedge, including those where the derivative is sold, terminated or exercised, accumulated gains or losses in shareholders' equity are amortised into the income statement when the income statement is impacted by the variability of the cash flow from the hedged item.

1.16. Reinsurance Assets

Reinsurance contracts are contracts entered into by the Company in order to receive compensation for losses on contracts written by the Company (outgoing reinsurance). For contracts transferring sufficient insurance risk, a reinsurance asset is recognised for the expected future benefits, less expected future reinsurance premiums. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment contracts, service contracts or borrowings, depending on the nature of the agreement.

Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. They are subject to impairment testing and are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

1.17. Deferred expenses

Deferred policy acquisition costs (DPAC)

DPAC relates to insurance contracts and investment contracts with discretionary participation features and represents the variable costs that are related to the acquisition or renewal of these contracts. Acquisition costs are deferred to the extent that they are recoverable and are subsequently amortised based on either the expected future premiums or the expected gross profit margins. Estimates include, but are not limited to: an economic perspective in terms of future returns on bond and equity instruments; mortality, disability and lapse assumptions; maintenance expenses and expected inflation rates. For all products, DPAC is assessed for recoverability at least annually and is considered in the liability adequacy test for each reporting period. If appropriate, the assumptions included in the determination of estimated gross profits are adjusted. The portion of DPAC that is determined not to be recoverable is charged to the income statement. DPAC is derecognised when the related contracts are settled or disposed of.

Deferred transaction costs

Deferred transaction costs relate to investment contracts without discretionary participation features under which the Company will render investment management services. Incremental costs that are directly attributable to securing these investment management contracts are recognised as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered. The deferred transaction costs are amortised in line with fee income, unless there is evidence that another method better represents the provision of services under the contract. Deferred transactions costs are subject to impairment testing at least annually. Deferred transaction costs are derecognised when the related contracts are settled or disposed of.

1.18. Other assets and receivables

Other assets include trade and other receivables, prepaid expenses and equipment. Trade and other receivables are initially recognised at fair value and are subsequently measured at amortised cost. Equipment is initially carried at cost, depreciated on a straight-line basis over its useful life to its residual value and is subject to impairment testing.

1.19. Cash and cash equivalents

Cash comprises cash at banks and in-hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements. Money market investments that are held for investment purposes (backing insurance liabilities, investment liabilities or equity based on asset/liability management considerations) are not included in cash and cash equivalents but are presented as investments or investments for account of policyholders.

1.20. Impairment of assets

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. For tangible and intangible assets, financial assets and reinsurance assets, if not held at fair value through profit or loss, the recoverable amount of the asset is estimated when there are indications that the asset may be impaired.

Impairment of non-financial assets

Assets are tested individually for impairment when there are indications that the asset may be impaired. The impairment loss is calculated as the difference between the carrying and the recoverable amount of the asset, which is the higher of an asset's value in use and its net selling price. The value in use represents the discounted future net cash flows from the continuing use and ultimate disposal of the asset and reflects its known inherent risks and uncertainties.

Impairment of debt instruments

Debt instruments are impaired if there is objective evidence that a loss event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows. A specific security is considered to be impaired when it is determined that it is probable that not all amounts due (both principal and interest) will be collected as scheduled. Individually significant loans and other receivables are assessed separately.

For debt instruments carried at amortised cost, the carrying amount of impaired financial assets is reduced through an allowance account. The impairment loss is calculated as the difference between the carrying and recoverable amount of the investment. The recoverable amount is determined by discounting the estimated probable future cash flows at the original effective interest rate of the asset. For variable interest debt instruments, the current effective interest rate under the contract is applied. For debt instruments classified as available-for-sale, the asset is impaired to its fair value. Any unrealised gain or loss previously recognised in shareholders' equity is taken to the income statement as an impairment loss. After impairment, the interest accretion on debt instruments that are classified as available-for-sale is based on the rate of return that would be required by the market for similar rated instruments at the date of impairment.

Impairment losses recognised for debt instruments can be reversed if, in subsequent periods, the amount of the impairment loss decreases and that decrease can be related objectively to a credit related event occurring after the impairment was recognised. For debt instruments carried at amortised cost, the carrying amount after reversal cannot exceed its amortised cost at the reversal date.

Impairment of reinsurance assets
Reinsurance assets are impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that not all amounts due under the terms of the contract will be received and the impact of the event on the amount to be received from the reinsurer can be reliably measured. Impairment losses are recognised in the income statement.

1.21. Equity
Financial instruments that are issued by the Company are classified as equity if they represent a residual interest in the assets of the Company after deducting all of its liabilities and the Company has an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation. Dividends and other distributions to holders of equity instruments are recognised directly in equity, net of tax.

1.22. Insurance contracts
Insurance contracts are contracts under which the Company accepts a significant risk – other than a financial risk – from a policyholder by agreeing to compensate the beneficiary on the occurrence of an uncertain future event by which he or she will be adversely affected. Contracts that do not meet this definition are accounted for as investment contracts. The Company reviews homogeneous books of contracts to assess whether the underlying contracts transfer significant insurance risk on an individual basis. This is considered the case when at least one scenario with commercial substance can be identified in which the Company has to pay significant additional benefits to the policyholder. Contracts that have been classified as insurance are not reclassified subsequently.

Insurance liabilities are recognised when the contract is entered into and the premiums are charged. The liability is derecognised when the contract expires, is discharged or is cancelled. Insurance contracts are accounted for consistent with the policies adopted by the Company for reporting to its ultimate parent undertaking, Aegon N.V.

Insurance contracts
For valuation of the liabilities of the UK non-profit fund annuity business, the cash flow is projected using current data and assumptions. Each cash flow is valued using a current market discount rate after taking into account the risk of credit default. The liability is determined as the sum of the discounted value of the expected benefits and future administrative expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used plus the deferred income reserve.

Other insurance contracts in the NPSF with terms that are fixed and guaranteed and which are of a long duration (generally over 3 years), such as term life insurance, are measured using the net premium method. The liability is determined as the sum of the discounted value of the expected benefits and future administrative expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is based on assumptions which are, for each cohort, determined at inception of the business and which include a margin for risk and adverse deviation.

The liability for insurance contracts with a short duration of generally less than 3 years comprises reserves for unearned premiums as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported.

Insurance contracts for account of policyholders
Insurance contracts under which the policyholder bears the risks associated with the underlying investments are classified as insurance contracts for account of policyholders. This classification comprises unit linked policies and with profit fund policies. Unit linked policies are measured at the nominal value of the policyholder unit account, with interest on any actuarial funding being at an expected rate of return. The liability for the WPSF represents the net assets of the fund. As the Company's WPSF is a 100:0 fund, all assets are expected to be distributed to with profits policyholders over time.

Liability adequacy testing

At each reporting date the adequacy of insurance contract liabilities, net of DPAC, is assessed using a liability adequacy test. Insurance contract liabilities are tested to ensure that the resulting liabilities are not lower than would be required under a sufficiently prudent prospective calculation and results in assumptions being revised to prospective assumptions when the test is not met. DPAC is tested for recoverability based on current estimates of future cash flows, with any resulting deficiency recognised in the income statement.

1.23. Investment contracts

Contracts issued by the Company that do not transfer significant insurance risk, but do transfer financial risk from the policyholder to the Company are accounted for as investment contracts. Depending on whether the Company or the policyholder runs the risks associated with the investments allocated to the contract, the liabilities are classified as investment contracts or as investment contracts for account of policyholders. Investment contract liabilities are recognised when the contract is entered into and are derecognised when the contract expires, is discharged or is cancelled.

Investment contracts with discretionary participation features and investment contracts for account of policyholders with discretionary participation features

Some investment contracts have participation features whereby the policyholder has the right to receive potentially significant additional benefits, which are based on the performance of a specified pool of investments held by the Company. If the Company has discretion over the amount or timing of the distribution of the returns to policyholders, the investment contract liability is measured based on the accounting principles that apply to insurance contracts with similar features.

Investment contracts for account of policyholders without discretionary participation features

Investment contracts for account of policyholders without discretionary participation features are designated as at fair value through profit or loss. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund.

For unit-linked contracts without discretionary participation features and subject to actuarial funding, the Company recognises a liability at the funded amount of the units. The difference between the gross value of the units and the funded value is treated as an initial fee paid by the policyholder for future asset management services and is deferred. It is subsequently amortised over the life of the contract or a shorter period, if appropriate.

1.24. Interest bearing loans and borrowings

Borrowings include amounts due under reinsurance contracts, which do not transfer significant insurance risk. Obligations for loans and borrowings are recognised when the company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Borrowing costs are recognised as an expense when incurred. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost. The liability is derecognised when the Company's obligation under the contract expires, is discharged or is cancelled.

1.25. Provisions

A provision is recognised for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, considering all its inherent risk and uncertainties, as well as the time value of money. The unwinding of the effect of discounting is recorded in the income statement as an interest expense.

1.26. Deferred revenue liability

A deferred income reserve is held to reflect the unearned future profit from the annuity contracts. The profit margin on each cohort of new business (including reinsurance) is deferred and released over time based on the expected cashflows over the life of the product at the time of sale.

Initial fees and front-end loadings paid by policyholders, for future investment management services related to investment contracts without discretionary participation features are also deferred and recognised as revenue when the related services are rendered. Profits on new business at policy inception for annuities are also deferred and recognised on a similar basis.

1.27. Tax assets and liabilities

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 balance sheet date. Current income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not in the income statement.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet 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 nor taxable profit or loss, and

- In respect of taxable temporary differences associated with investments in subsidiaries, 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 the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised 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 nor the taxable profit or loss; and

- The carrying amount of deferred income tax assets is reviewed at each balance sheet date and 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 balance sheet 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 balance sheet date. Deferred income tax relating to items recognised directly in other comprehensive income is recognised directly in other comprehensive income and not in the income statement. 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 relate to the same taxable entity and the same taxation authority.

Policyholder tax

The income tax charge comprises tax in respect of policyholders' returns and the balance, which represents the tax on equity-holder's returns. The income tax charge in respect of policyholders' returns reflects the movement in current and deferred income tax recognised in respect of those items of income, gains and expenses, which accrue to the benefit of policyholders.

1.28. Contingent assets and liabilities

Contingent assets are disclosed in the notes if the inflow of economic benefits is probable, but not virtually certain. When the inflow of economic benefits becomes virtually certain, the asset is no longer contingent and its recognition is appropriate. A provision is recognised for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed, unless the possibility of an outflow of economic benefits is remote.

1.29. Events after the balance sheet date

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the balance sheet date. Events that are indicative of conditions that arose after the balance sheet date are disclosed, but do not result in an adjustment of the financial statements themselves.

2. Critical accounting estimates and judgement in applying accounting policies

Application of the accounting policies in the preparation of the financial statements requires management to apply judgement involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from those estimates. Accounting policies that are critical to the financial statement presentation and that require complex estimates or significant judgement are described in the following sections.

2.1. Valuation of assets and liabilities arising from insurance contracts and investment contracts with discretionary participating features

The liability for long duration insurance contracts in the NPSF with guaranteed or fixed account terms excluding annuities is based on the assumptions established at inception of the contract, reflecting the best estimates at the time increased with a margin for adverse deviation. For valuation of the liabilities of the UK non-profit fund annuity business, the cash flow is projected using current data and assumptions. Each cash flow is valued using a current market discount rate after taking into account the risk of credit default. Annuity contracts are valued using current best estimate assumptions. All contracts are subject to liability adequacy testing which reflects management's current estimates of future cash flows. If a change in assumption results in the failure of the liability adequacy test, the entire deficiency is recognised in the income statement.

In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force are recorded as DPAC assets and are amortised to the income statement over time. If the assumptions relating to the future profitability of these policies are not realised, the liability adequacy test could require write offs due to unrecoverability. The new business profits on annuities are also deferred at inception and amortised to the income statement over time as described in section 1.22.

2.2. Actuarial assumptions – insurance contracts

Non-profit pension annuity business

Assumptions used are based on the latest information available. Mortality tables applied are generally developed based on a blend of company experience and industry wide studies, taking into consideration product characteristics, own risk selection criteria, target market and past experience. Mortality experience is monitored through regular studies and the mortality basis is updated annually.

The valuation interest rate used to value all the annuity business is the risk-adjusted internal rate of return on the portfolio of assets backing the annuity book where the risk adjustment applied allows for the risk of rating changes and defaults on the assets.

Mortality assumptions as at 31 December 2015 are detailed below.

For SE immediate annuities:

- For annuities less than or equal to £800 p.a. : 141.00% of PCML00 - 3 years ultimate & 133.95% of PCFL00 - 3 years ultimate projected in line with CMI_2014 model improvements using the "core" CMI assumptions with a long term annual improvement rate of 1.50% for males and 1.25% for females beginning 1/1/00

- For annuities between £800 & £4k p.a. : 124.08% of PCML00 - 3 years ultimate & 117.88% of PCFL00 - 3 years ultimate projected in line with CMI_2014 model improvements using the "core" CMI assumptions with a long term annual improvement rate of 1.50% for males and 1.25% for females beginning 1/1/00
- For annuities between £4kp.a. & £9k p.a. : 108.57% of PCML00 - 3 years ultimate & 103.14% of PCFL00 - 3 years ultimate projected in line with CMI_2014 model improvements using the "core" CMI assumptions with a long term annual improvement rate of 1.50% for males and 1.25% for females beginning 1/1/00
- For annuities greater than £9k p.a. : 98.70% of PCML00 - 3 years ultimate & 93.77% of PCFL00 - 3 years ultimate projected in line with CMI_2014 model improvements using the "core" CMI assumptions with a long term annual improvement rate of 1.50% for males and 1.25% for females beginning 1/1/00

The base table percentages detailed above are multiplied by a factor (between 100% & 178%) reflecting the expected impact of geographical location (postcode) on mortality. 3 year, 7 year & 10+ year select periods are incorporated into the tables for internally vesting (<2007 or >2010), internally vesting (2007-2010) & external (Open Market Option) business respectively.

For SE Group Annuities:

- 95.00% of S1PMA & 95.00% of S1PFA projected in line with CMI_2012 model improvements using the "core" CMI assumptions with a long term improvement rate of 1.50% p.a., beginning 1/1/03 to end-2015; CMI_2014 model improvements using the "core" CMI assumptions with a long term improvement rate of 1.50% p.a. and 1.25% p.a. for males and females respectively thereafter.

For the inwards reinsurance of annuity business that has been accepted on arm's length terms from Guardian Assurance plc (which was a fellow subsidiary undertaking until it was sold on 23 November 2011), the mortality basis as at Q4 2015:

- For annuities less than or equal to £1500 p.a. : 114.30% of IML00 ultimate & 114.30% of RFV00 ultimate projected in line with CMI_2014 model improvements using the "core" CMI assumptions with a long term annual improvement rate of 1.50% and 1.25% for males and females respectively beginning 1/1/09
- For annuities between £1500 & £4k p.a. : 102.41% of IML00 ultimate & 102.41% of RFV00 ultimate projected in line with CMI_2014 model improvements using the "core" CMI assumptions with a long term annual improvement rate of 1.50% and 1.25% for males and females respectively beginning 1/1/09
- For annuities over £4kp.a. : 83.10% of IML00 ultimate & 83.10% of RFV00 ultimate projected in line with CMI_2014 model improvements using the "core" CMI assumptions with a long term annual improvement rate of 1.50% and 1.25% for males and females respectively beginning 1/1/09

Non-profit employee benefits business

The Employee Benefits unit offered a range of group protection products and, as such, provisions are mainly claims in payment and claims notified but not yet settled.

Non-profit protection business

Mortality and morbidity assumptions for each cohort are based upon experience with a 15% loading for any adverse deviation.

2.3. Actuarial assumptions – contracts with discretionary participating features

Unitised business

DPAC in respect of insurance contracts and investment contracts with discretionary participating features is amortised over time in line with estimated gross profits. Significant assumptions for each cohort include the annual long-term growth rate of the underlying assets and the lapse rates. The long-term growth rate for equities is based on historic returns, whilst lapse rates are based primarily on our own experience.

DPAC is tested for recoverability based on current estimates of future cash flows. The most significant assumptions relating to DPAC recoverability are credit default assumptions on general account debt securities, lapse rates and the allocation of future expenses between acquisition expenses and renewal expenses.

With profit fund

The liability for the WPSF represents the net assets of the fund. As the Company's WPSF is a 100:0 fund, we expect to distribute all assets to with profits policyholders over time. Liabilities for contracts within the WPSF are calculated on a UK Pillar 1 regulatory basis to ensure that the net assets are more than sufficient to cover these liabilities and associated capital requirements.

The factors giving rise to the greatest level of uncertainty in the calculation of these WPSF UK Pillar 1 liabilities are:

- Assumed rates of future mortality improvement in the calculation of provisions for immediate and deferred annuities (including Guaranteed Annuity Options (GAOs)).
- Assumed levels of future interest rates in the calculation of provisions for deferred annuities (including GAOs).
- Assumed levels of future GAO take-up.
- The yields as at the valuation date on the assets backing the technical provisions, to which valuation rates of interest are directly related.

2.4. Fair value and fair value hierarchy

The following is a description of Company's methods of determining fair value, and a quantification of its exposure to assets and liabilities measured at fair value.

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

In accordance with IFRS 13, the Company uses the following hierarchy for determining and disclosing the fair value of assets and liabilities:

- Level I: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;
- Level II: inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices of identical or similar assets and liabilities) using valuation techniques for which all significant inputs are based on observable market data; and
- Level III: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) or using valuation techniques for which any significant input is not based on observable market data.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active or quoted market prices are not available, a valuation technique is used.

The degree of judgment used in measuring the fair value of assets and liabilities generally inversely correlates with the level of observable valuation inputs. The Company maximizes the use of observable inputs and minimizes the use of unobservable valuation inputs when measuring fair value. Financial instruments, for example, with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments for which quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment.

The assets and liabilities categorization within the fair value hierarchy is based on the lowest input that is significant to the fair value measurement.

The judgment as to whether a market is active may include, although not necessarily determinative, lower transaction volumes, reduced transaction sizes and, in some cases, no observable trading activity for short periods. In inactive markets, assurance is obtained that the transaction price provides evidence of fair value or determined that the adjustments to transaction prices are necessary to measure the fair value of the instrument.

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain assets and liabilities are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for such assets and liabilities, the derivation of fair value is more judgmental. An instrument in its entirety is classified as valued using significant unobservable inputs (Level III) if, in the opinion of management, a significant proportion of the instrument's carrying amount is driven by unobservable inputs. "Unobservable" in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Additional information is provided in the table headed "Effect of changes in significant unobservable assumptions to reasonably possible alternatives" below. While the Company believes, its valuation techniques are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain instruments (both financial and non-financial) could result in a different estimate of fair value at the reporting date.

To operationalize the Company's fair value hierarchy, individual instruments (both financial and non-financial) are assigned a fair value level based primarily on the type of instrument and the source of the prices (e.g. index, third-party pricing service, broker, internally modelled). Periodically, this logic for assigning fair value levels is reviewed to determine if any modifications are necessary in the context of the current market environment.

Fair value of assets and liabilities
The estimated fair values of the Company's assets and liabilities correspond with the amounts 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. When available, the Company uses quoted market prices in active markets to determine the fair value of investments and derivatives. In the absence of an active market, the fair value of investments in financial assets is estimated by using other market observable data, such as corroborated external quotes and present value or other valuation techniques. An active market is one in which transactions are taking place regularly on an arm's length basis. A fair value measurement assumes that an asset or liability is exchanged in an orderly transaction between market participants, and accordingly, fair value is not determined based upon a forced liquidation or distressed sale.

Valuation techniques are used when the Company determines the market is inactive or quoted market prices are not available for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). Therefore, unobservable inputs reflect Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available.

The Company employs an oversight structure over valuation of financial instruments that includes appropriate segregation of duties. Senior management, independent of the investing functions, is responsible for the oversight of control and valuation policies and for reporting the results of these policies. For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilised to corroborate those inputs. Further details of the validation processes are set out below.

Valuation of assets and liabilities is based on a pricing hierarchy, in order to maintain a controlled process that will systematically promote the use of prices from sources in which the Company has the most confidence, where the least amount of manual intervention exists and to embed consistency in the selection of price sources. Depending on asset type the pricing hierarchy consists of a waterfall that starts with making use of market prices from indices and follows with making use of third-party pricing services or brokers.

Shares
Fair values for unquoted shares are estimated using observations of the price/earnings or price/cash flow ratios of quoted companies considered comparable to the companies being valued. Valuations are adjusted to account for company-specific issues and the lack of liquidity inherent in an unquoted investment. Illiquidity adjustments are generally based on available market evidence. In addition, a variety of other factors are reviewed by management, including, but not limited to, current operating performance, changes in market outlook and the third-party financing environment.

Debt securities
When available, the Company uses quoted market prices in active markets to determine the fair value of its debt securities. These market quotes are obtained through index prices or pricing services.

The fair values of debt securities (including Asset Backed Securities (ABS), Residential Mortgage Backed Securities (RMBS), Commercial Mortgage Backed Securities (CMBS) and ABS's-Other are determined by management after taking into consideration several sources of data. The Company's valuation policy dictates that publicly available prices are initially sought from several third party pricing services. In the event that pricing is not available from these services, those securities are submitted to brokers to obtain quotes. The majority of brokers' quotes are non-binding. As part of the pricing process the Company assesses the appropriateness of each quote (i.e., as to whether the quote is based on observable market transactions or not) to determine the most appropriate estimate of fair value. Lastly, securities are priced using internal cash flow modelling techniques. These valuation methodologies commonly use the following inputs: reported trades, bids, offers, issuer spreads, benchmark yields, estimated prepayment speeds, and/or estimated cash flows. Only pricing services and brokers with a substantial presence in the market and with appropriate experience and expertise are used.

Third party pricing services will often determine prices using recently reported trades for identical or similar securities. The pricing service makes adjustments for the elapsed time from the trade date to the balance sheet date to take into account available market information. Lacking recently reported trades, third party pricing services and brokers will use modelling techniques to determine a security price where expected future cash flows are developed based on the performance of the underlying collateral and discounted using an estimated market rate. Also included within the modelling techniques for ABS –RMBS, CMBS and ABS's-Other securities are estimates of the speed at which principal will be repaid over their remaining lives. These estimates are determined based on historical repayment speeds (adjusted for current markets) as well as the structural characteristics of each security.

Money market and other short-term investments and deposits with financial institutions
The fair value of assets maturing within a year is assumed to be approximated by their carrying amount adjusted for credit risk, where appropriate, based on market observable credit spreads.

Financial derivatives
Where quoted market prices are not available, other valuation techniques, such as option pricing or stochastic modelling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data when available. All models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices.

Fair values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter (OTC) derivative financial instruments represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services. Most valuations are derived from swap and volatility matrices, which are constructed for applicable indices and currencies using current market data from many industry standard sources. Option pricing is based on industry standard valuation models and current market levels, where applicable. The pricing of complex or illiquid instruments is based on internal models. For long-dated illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. To value OTC derivatives, management uses observed market information, other trades in the market and dealer prices.

The Company normally mitigates credit risk in derivative contracts by entering into collateral agreements where practical and in International Securities and Derivatives Association (ISDA) master netting agreements for each of the Company's legal entities to facilitate the Company's right to offset credit risk exposure. Where appropriate collateral is not held by the Company or the counterparty, the fair value of derivatives is adjusted for credit risk based on market observable spreads. Changes in the fair value of derivatives attributable to changes in counterparty credit risk were not significant.

Real estate
Valuations of investments in real estate is conducted in full by independent external appraisers every month. Appraisals are based on Royal Institute of Chartered Surveyors (RICS) guidelines (The Red Book). Valuations are mostly based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. If such information is not available, other valuation methods are applied, considering the current cost of reproducing or replacing the property, the value that the property's net earning power will support and the value indicated by recent sales of comparable properties.

2015					2015
		Level I	Level II	Level III	Total
	Note	£m	£m	£m	£m
Financial assets carried at fair value					
Available-for-sale investments					
Debt securities and money market investments	11	**324.0**	**148.9**	**-**	**472.9**
Shares	11	**-**	**100.0**	**-**	**100.0**
		324.0	**248.9**	**-**	**572.9**
Fair value through profit or loss					
Shares	11	**-**	**210.3**	**-**	**210.3**
Debt securities	11	**2,627.4**	**6,692.8**	**38.9**	**9,359.1**
Investments for account of policyholders	12	**14,813.0**	**31,900.4**	**223.6**	**46,937.0**
Investments in real estate for policyholders	12	**-**	**-**	**753.1**	**753.1**
Derivatives	13	**18.7**	**650.8**	**83.4**	**752.9**
Investments in subsidiaries	10	**-**	**-**	**0.3**	**0.3**
		17,459.1	**39,454.3**	**1,099.3**	**58,012.7**
Total assets at fair value		**17,783.1**	**39,703.2**	**1,099.3**	**58,585.6**
Liabilities carried at fair value through profit or loss					
Investments contracts for account of policyholders	22	**-**	**2,403.2**	**-**	**2,403.2**
Derivatives	13	**18.9**	**412.4**	**-**	**431.3**
Total liabilities at fair value		**18.9**	**2,815.6**	**-**	**2,834.5**

2014					2014 *
		Level I	Level II	Level III	Total
	Note	£m	£m	£m	£m
Financial assets carried at fair value					
Available-for-sale investments					
Debt securities and money market investments*	11	231.0	200.3	-	431.3
Fair value through profit or loss					
Shares	11	-	149.6	-	149.6
Debt securities*	11	2,318.4	7,195.5	24.7	9,538.6
Investments for account of policyholders	12	16,003.0	31,711.8	204.1	47,918.9
Investments in real estate for policyholders	12	-	-	854.7	854.7
Derivatives	13	40.1	555.9	99.8	695.8
Investments in subsidiaries	10	-	-	0.3	0.3
		18,361.5	39,612.8	1,183.6	59,157.9
Total assets at fair value		18,592.5	39,813.1	1,183.6	59,589.2
Liabilities carried at fair value through profit or loss					
Investments contracts for account of policyholders	22	-	2,659.7	-	2,659.7
Derivatives	13	40.4	354.6	-	395.0
Total liabilities at fair value		40.4	3,014.3	-	3,054.7

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

Movements in Level 3 financial instruments measured at fair value

The following table summarizes the change of all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level III), including realised and unrealised gains (losses) of all assets and liabilities and unrealised gains (losses) of all assets and liabilities still held at the end of the respective period.

2015

	At 1 January 2015	Total gains / (losses) in income statement *	Total gains / (losses) in Other Comprehensive Income **	Purchases	Sales	Settlements	Transfers from Level II to Level III	Transfers from Level III to Level I	Transfers from Level III to Level II	At 31 December 2015	Total gains or (losses) for the period included in profit and loss for assets held at 31 December 2015 ***
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets carried at fair value:											
Available-for-sale Investments											
Debt securities	-	-	-	-	-	-	-	-	-	-	-
Fair value through profit or loss											
Debt securities	24.7	(1.8)	-	-	-	-	16.7	-	(0.7)	38.9	(0.2)
Investments for account of policyholders	204.1	13.2	-	40.7	(25.4)	-	-	-	(9.0)	223.6	11.0
Investments in real estate for policyholders	854.7	48.8	-	203.5	(353.9)	-	-	-	-	753.1	46.4
Derivatives	99.8	(0.3)	-	-	(16.1)	-	-	-	-	83.4	12.7
Investments in subsidiaries	0.3	-	-	-	-	-	-	-	-	0.3	-

2014

	At 1 January 2014 £m	Total gains in income statement * £m	Total gains / in Other Comprehensive Income ** £m	Purchases £m	Sales £m	Settlements £m	Transfers from Level II to Level III £m	Transfers from Level III to Level I £m	Transfers from Level III to Level II £m	At 31 December 2014 £m	Total gains or (losses) for the period included in profit and loss for assets held at 31 December 2014 *** £m
Financial assets carried at fair value:											
Available-for-sale investments											
Debt securities ****	-	-	-	-	-	-	-	-	-	-	-
Fair value through profit or loss											
Debt securities ****	36.1	1.8	2.3	-	(15.5)	-	-	-	-	24.7	1.2
Investments for account of policyholders	130.5	17.1	-	61.5	(16.6)	-	16.3	-	(4.7)	204.1	17.0
Investments in real estate for policyholders	828.5	43.0	-	52.8	(69.6)	-	-	-	-	854.7	43.0
Derivatives	63.3	48.2	-	-	(11.7)	-	-	-	-	99.8	48.2
Investments in subsidiaries	0.3	-	-	-	-	-	-	-	-	0.3	-

* Includes impairments and movements related to fair value hedges. Gains and losses are recorded in the line item Results from financial transactions of the income statement.

** Total gains and losses are recorded in line items: Net gains/(losses) on available-for-sale investments,

*** This is the total gains / losses for the period during which the financial instrument was in Level III. Gains and losses are recorded in the line item Results from financial transactions of the income statement.

**** Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

The Company's policy is to record transfers of assets and liabilities between Level I, Level II and Level III at their fair values as of the beginning of each reporting period. During 2015, the Company transferred certain financial instruments from Level II to Level III of the fair value hierarchy. The reason for the change in level was that the market liquidity for these securities decreased, which led to a change in market observability of prices. Prior to transfer, the fair value for the Level I and Level II securities was determined using observable market transactions or corroborated broker quotes respectively for the same or similar instruments. Since the transfer, all such assets have been valued using valuation models incorporating significant non market-observable inputs or uncorroborated broker quotes.

Similarly, during 2015, the Company transferred certain financial instruments from Level III to other levels of the fair value hierarchy. The change in level was mainly the result of a return of activity in the market for these securities and that for these securities the fair value could be determined using observable market transactions or corroborated broker quotes for the same or similar instruments

The Company transferred no financial instruments from Level I to Level III of the fair value hierarchy during the year (2014: nil). The Company transferred certain financial instruments from Level II to Level III of the fair value hierarchy. The amount of assets transferred was £16.7m (2014: £16.3m). The change in level was a result of changes in market observability of prices.

Similarly, during the year the Company also transferred certain financial instruments from Level III to Level II of the fair value hierarchy. The amount of assets transferred was £9.7m (2014: £4.7m). The Company did not transfer any financial instruments from Level III to Level I of the fair value hierarchy (2014: nil). The change in level was a result of changes in market observability of prices. There were no significant transfers between Level I and Level II.

Significant unobservable assumptions

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for certain Level III assets and liabilities.

	December 31, 2015	Valuation technique	Significant unobservable input*	Range (weighted average)
	£m			
Financial assets carried at fair value				
Available-for-sale investments - Debt securities				
ABS's-Other	-	Broker quote	n.a.	n.a.
Corporate Bonds	-	Broker quote	n.a.	n.a.
As December 31	-			
Fair value through profit or loss				
Debt securities	**38.9**	Broker quote	n.a.	n.a.
Investment in subsidiaries	**0.3**	Net asset value	n.a.	n.a.
As December 31	**39.2**			

* Not applicable (n.a.) has been included when no significant unobservable assumption has been identified and used.

	December 31, 2014	Valuation technique	Significant unobservable input*	Range (weighted average)
	£m			
Financial assets carried at fair value				
Available-for-sale investments - Debt securities				
ABSs-Other **	-	Broker quote	n.a.	n.a.
Corporate Bonds **	-	Broker quote	n.a.	n.a.
As December 31	-			
Fair value through profit or loss				
Debt securities **	24.7	Broker quote	n.a.	n.a.
Investment in subsidiaries	0.3	Net asset value	n.a.	n.a.
As December 31	25.0			

* Not applicable (n.a.) has been included when no significant unobservable assumption has been identified and used.
** Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

Investments for account of policyholders, including derivatives, are excluded from the table above and from the disclosure regarding reasonably possible alternative assumptions. Policyholder assets, and their returns, belong to policyholders and do not impact the Company's net income or equity. The effect on total assets is offset by the effect on total liabilities.

In regards to Level III holdings we do not consider that there were reasonably possible alternative assumptions that would significantly impact net income, total equity or total assets.

Fair value information about assets and liabilities not measured at fair value

The following table presents the carrying values and estimated fair values of assets and liabilities, excluding assets and liabilities, which are carried at fair value on a recurring basis.

	Carrying amount December 31, 2015	Estimated fair value hierarchy			Total estimated fair value December 31, 2015
		Level I	Level II	Level III	
	£m	£m	£m	£m	£m
Assets					
Loans – held at amortised cost	**119.5**	-	-	**119.5**	**178.7**

	Carrying amount December 31, 2014	Estimated fair value hierarchy			Total estimated fair value December 31, 2014
		Level I	Level II	Level III	
	£m	£m	£m	£m	£m
Assets					
Loans – held at amortised cost	119.5	-	-	119.5	188.7

Certain financial instruments that are not carried at fair value are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These instruments include cash and cash equivalents, short-term receivables and accrued interest receivable, short-term liabilities, and accrued liabilities. These instruments are not included in the table above.

2.5. Impairment of financial assets

There are a number of significant risks and uncertainties inherent in the process of monitoring investments and determining if impairment exists. These risks and uncertainties include the risk that the Company's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer and the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated. Any of these situations could result in a charge against the income statement in a future period to the extent of the impairment.

Debt securities

The Company regularly monitors industry sectors and individual debt securities for evidence of impairment. This evidence may include one or more of the following: 1) deteriorating market to book ratio, 2) increasing industry risk factors, 3) deteriorating financial condition of the issuer, 4) covenant violations, 5) high probability of bankruptcy of the issuer or 6) nationally recognised credit rating agency downgrades. A security is impaired if there is objective evidence that a loss event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows. A specific security is considered to be impaired when it is determined that it is probable that not all amounts due (both principal and interest) will be collected as scheduled.

2.6. Taxation

Deferred tax assets are established for the tax benefit related to deductible temporary differences, carry forward of unused tax losses and carry forward of unused tax credits when in the judgement of the Directors it is probable that the Company will receive the tax benefits. Since there is no absolute assurance that these assets will ultimately be realised, management reviews the Company's deferred tax positions periodically to determine if it is probable that the assets will be realised.

In respect of the Life business deferred tax asset recognised of £28.2m described in note 24, the recoverability is considered probable taking into account:

- expected income from inforce onshore bond business
- expected income from inforce with profits business
- potential income from future sales of onshore bond business
- potential tax planning opportunities

The asset is expected to be recovered over 5 to 10 years. This range does not take into account potential income from future sales of onshore bond business, which would accelerate the recovery period. It is expected that circa 50% of the asset will be outstanding after 3 years.

The most significant assumptions relate to lapse rates on inforce onshore bond business, and fixed interest and equity investment returns for inforce onshore bond and with profits business.

2.7. Deferred Income Reserve

As described in section 1.1.3, under the change in accounting policy, a deferred income reserve is held so that the profit generated on new annuity business is deferred and recognised over the life of the policy. For business written post 1 January 2012, this has been recalculated using the data, model and assumptions that applied at the time of sale.

For business written pre 1 January 2012 this was not possible due to limitations in the historic data and model. For this business, the value of new business was used as an approximation for the profit that would have been deferred. The value of new business was calculated on the best estimate economic and non-economic assumptions that applied at the time of sale and so this is considered a suitable approach.

3. Investment income

	2015	2014*
	£m	£m
Interest Income	**863.2**	913.4
Dividend income	**770.0**	721.4
Rental income	**53.5**	57.9
Total Investment Income	**1,686.7**	1,692.7

	2015	2014*
	£m	£m
Investment income related to general account	**355.9**	379.3
Investment income for account of policyholders	**1,330.8**	1,313.4
Total Investment Income	**1,686.7**	1,692.7

	2015	2014*
Investment income from financial assets held for general account:	£m	£m
Available-for-sale	**9.0**	6.0
Financial assets at fair value through profit or loss	**336.8**	361.2
Loans	**7.7**	9.0
Other	**2.4**	3.1
Investment income related to general account	**355.9**	379.3

	2015	2014*
Investment income from:	£m	£m
Shares	**770.0**	721.4
Debt securities and money market instruments	**853.2**	901.3
Loans	**7.7**	9.0
Real estate	**53.5**	57.9
Other	**2.3**	3.1
Total investment income	**1,686.7**	1,692.7

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3. – see note 11 for more information.

Investment income from general account loans, relates to loans to parent undertakings. For terms and conditions relating to related party transactions, refer to note 30.

Included in interest income is nil (2014: nil) in respect of interest income accrued on impaired financial assets. The interest income of financial assets that are not carried at fair value through profit or loss amounted to £19.1m (2014: £18.1m).

4. Results from financial transactions

	2015	2014*
	£m	£m
Net fair value change on general account financial investments at fair value through profit or loss (all designated), other than derivatives*	(346.3)	1,109.1
Realised gains and losses on general account financial investments*	16.8	15.1
Net fair value change on derivatives (other than general account economic hedges for which no hedge accounting is applied)	29.2	429.2
Fair value changes on general account economic hedges for which no hedge accounting is applied*	(67.5)	(42.2)
Net fair value change on for account of policyholder financial assets at fair value through profit or loss (all designated), other than derivatives	434.4	2,117.5
Net fair value change on investments in real estate for account of policyholders	48.8	41.3
Total results from financial transactions	115.4	3,670.0

Net fair value change on general account financial investments at fair value through profit or loss, other than derivatives comprise:	2015	2014*
	£m	£m
Shares	2.1	3.2
Debt securities and money market investments	(348.4)	1,105.9
Total	(346.3)	1,109.1

Realised gains and losses on financial investments relate to:	2015	2014*
	£m	£m
Debt securities and money market investments	16.8	15.1
Total	16.8	15.1

Realised gains and losses on financial investments relate to:	2015	2014*
	£m	£m
Available-for-sale investments	16.8	15.1
Total	16.8	15.1

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3. - see note 11 for more information.

Net fair value change for account of policyholder financial investments at fair value through profit or loss (all designated), other than derivatives comprise:	2015	2014
	£m	£m
Shares	412.9	240.4
Debt securities and money market investments	(273.8)	920.6
Separate accounts and unconsolidated investment funds	295.3	956.5
Total	434.4	2,117.5

Investments for account of policyholders comprise financial assets and investments in real estate. Refer to note 12 for further information. Financial assets for account of policyholder are classified as fair value through profit or loss. Investment income on investments for account of policyholders is included in investment income, see note 3.

5. Policyholders' claims and benefits

	2015	2014*
	£m	£m
Claims and benefits paid to policyholders	6,400.2	5,621.1
Change in valuation of liabilities for insurance and investment contracts	(1,364.0)	2,842.3
Total	5,036.2	8,463.4

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

6. Commissions and expenses

	2015	2014
	£m	£m
Commissions	**111.1**	141.5
Investment management expenses	**45.1**	41.0
Administration expenses	**230.3**	304.3
Deferred expenses	**(72.9)**	(101.7)
Amortisation of deferred expenses	**152.2**	162.0
Total	**465.8**	547.1

Administration expenses in 2015 includes £0.3m (2014: £38.8m) in relation to finance and business transformation costs and no further costs (2014: £28.4m) to meet the estimated costs of reviewing and amending client policies to meet the new Department of Work and Pensions (DWP) cap on group pension charges. Operating lease payments recognised as expenses during the year amounted to £6.6m (2014: £5.6m).

Aegon UK Corporate Services Limited, which is a fellow subsidiary of Aegon UK plc, provides services to the Aegon UK Group and in particular employs those personnel who provide services to the Company. Therefore, the Company has no employees under contracts of service. All administrative expenses above are recharged by Aegon UK Corporate Services Limited to the Company. In respect of share-based payments, the recharges from Aegon UK Corporate Services Limited are based on the expense calculated in accordance with IFRS 2. In respect of the defined benefit pension scheme operated by the Aegon UK plc group, recharges from the Aegon UK Corporate Services Limited is based on employer contributions to the scheme.

All investment management expenses above are recharged by Kames Capital plc, (2014: Kames Capital Management Limited) a fellow subsidiary of Aegon N.V.

Amount paid to auditors and their associates	2015	2014
	£m	£m
Audit of the financial statements	**0.3**	0.2
Other fees to auditors:		
Audit of regulatory return	**0.6**	0.8
Audit services in respect of ultimate parent undertaking	**1.1**	0.6
Total amount paid to auditors and their associates	**2.0**	1.6

The amounts of Directors' remuneration were as follows:	2015	2014
	£'000	£'000
Fees	**555.0**	467.1
Remuneration including bonuses	**2,313.2**	1,953.8
Aggregate amounts receivable by Directors in respect of long-term incentive schemes (other than shares and share options)	**-**	-
Total amounts of Directors' remuneration	**2,868.2**	2,420.9

Contributions were made for one director (2014: one) to defined contribution schemes of £14,000 (2014: £23,000).

Three directors received Aegon N.V. shares in relation to long term incentive schemes in 2015 (2014: two).

Compensation in respect of loss of office to directors is £nil in 2015 (2014: £nil).

The Executive Directors of Scottish Equitable plc are also Executive Directors of other Aegon UK plc group companies. The total remuneration of the Executive Directors is disclosed above, all of which was paid by the Aegon UK plc group. The Directors do not believe that it is practicable to apportion this amount between their services as Executive Directors of Scottish Equitable plc and its subsidiaries and their services to other Aegon UK group companies.

Fees relate to payments to Non-Executive Directors. Non-Executive Directors do not participate in any incentive or bonus plans or pension arrangements.

The above includes the following amounts in respect of the highest paid Director for his services to the Company and other Aegon UK plc group companies.	2015 £'000	2014 £'000
Remuneration including bonuses	**1,170.1**	1,016.9
Aggregate amounts receivable by Directors in respect of long-term incentive schemes (other than shares and share options)	**-**	-
Total in respect of highest paid Director	**1,170.1**	1,016.9

The highest paid director became a member of the Management Board of Aegon N.V. on 17 February 2012.

The remuneration for the highest paid Director included above is also disclosed in the Aegon UK plc financial statements where he is also a Director.

The highest paid Director at 31 December 2015 and 31 December 2014 was not a member of the defined benefit pension scheme. Contributions of nil (2014: nil) were made to a defined contribution scheme in respect of the highest paid Director at 31 December 2015.

The highest paid Director received Aegon N.V. shares in relation to long term incentive schemes in 2015 and 2014.

7. Impairment charges

There have been no impairments of financial or non-financial assets in the year (2014: Nil).

8. Interest charges and related fees

	2015 £m	2014 £m
Borrowings	**-**	1.2
Interest due to group undertakings	**-**	0.8
Other	**3.0**	6.5
Total	**3.0**	8.5

The interest charges above accrued on financial assets and liabilities that are not carried at fair value through profit or loss. Interest due to group undertakings relates to borrowings from other Aegon N.V. group undertakings, which were all repaid during 2014.

9. Income Tax

	2015	2014*
Current Tax	£m	£m
Current year	**(73.0)**	89.5
Adjustments to prior year	**0.9**	(0.2)
	(72.1)	89.3
Deferred Tax		
Origination/(reversal) of temporary differences	**128.5**	(26.3)
Change in deferred tax rate	**(9.3)**	2.9
Change in recognition of deferred tax assets (note 24)	**-**	(12.0)
Adjustment in respect of prior years	**(2.0)**	1.3
Income tax charge for the period	**45.1**	55.2

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

On 20 March 2013, the Chancellor announced that the tax rate will reduce by 2% to 21% from 1 April 2014 and then reduce a further 1% to 20% from 1 April 2015. These changes form part of the Finance Act 2013 and were substantively enacted on 2 July 2013.

The Finance (No. 2) Act 2015, substantively enacted on the 26 October 2015, included future reductions to the corporation tax rate from 20% to 19% with effect from 1 April 2017 and then from 19% to 18% from 1 April 2020.

The impact of these reductions in tax rates on the deferred tax balances have been included in the above figures and the deferred tax tables.

Reconciliation between standard and effective income tax:	2015	2014*
	£m	£m
Income before tax	**295.7**	230.7
Income tax calculated using weighted average applicable statutory rates	**59.9**	49.6
Difference due to the effects of:		
Non-taxable income	**(0.2)**	(0.2)
Non tax deductible expenses	**-**	0.7
Change in tax rate	**(9.3)**	2.9
Other taxes	**(4.2)**	13.1
Recognition of deferred tax asset previously unrecognised (note 24)	**-**	(12.0)
Adjustment to prior years	**(1.1)**	1.1
Income tax charge for the period	**45.1**	55.2

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

The weighted average applicable tax rate for 2015 is 20.25% (2014: 21.5%).

On 24 October 2013, the High Court found the UK Corporation Tax treatment of non-UK dividends to be discriminatory. A further judgement was given on 26 January 2015, which dealt with how the earlier judgement should be applied in calculating claims. The original judgement is subject to appeal and due to the uncertain nature of any recovery, no amounts have been recognised in relation to this.

10. Investments in subsidiaries

At 31 December 2015, the Company held shares in the following principal subsidiary undertakings operating in the UK., each undertaking has only one class of share.

Name	Principal Activity	Registered	Holding %
Scottish Equitable (Managed Funds) Ltd	Reassurance of life assurance business (until 31 December 2009) (dormant)	Scotland	100
Aegon UK IT Services Ltd	Leasing Company (dormant)	Scotland	100

11. Investments

Investments for general account comprise financial assets, excluding derivatives. Refer to note 12 for investments for which the investment risk is borne by the policyholders and to note 13 for details on general account derivatives.

	2015	2014*
	£m	£m
Fair value through profit or loss – designated:		
Shares	**210.3**	149.6
Debt securities and money market investments	**9,359.1**	9,538.6
Other (trading) financial assets	**-**	100.8
	9,569.4	9,789.0
Available-for-sale:		
Shares	**100.0**	-
Debt securities and money market investments	**472.9**	431.3
	572.9	431.3
Loans:		
Loan to other Aegon N.V. group undertaking	**119.5**	119.5
	119.5	119.5
Total investments for the general account	**10,261.8**	10,339.8

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

Of the debt securities and money market investments, £364.5m is current (2014: £259.1m). The loan to other Aegon N.V. group undertaking is repayable in 2033 or earlier in certain specified circumstances. Interest is being charged at six-month LIBOR + 5.78%.

Reclassification of financial assets

The Company reclassified some available-for-sale investments to fair value through profit or loss as described in note 1.1.3 in line with IFRS 4 *Insurance Contracts.* The investments are corporate bonds and gilts. The amount classified out of available-for-sale into fair value through profit or loss in 2014 is £9,538.5m.

As a result of the reclassification in 2014, investment income of £349.3m has been reclassified from available-for-sale to fair value through profit of loss in note 3 of the notes to the financial statements.

In 2014 gains and losses of £968.8m previously recognised in other comprehensive income for the assets when classified as available-for-sale have been reclassified to the income statement as fair value changes on general account financial investments in note 4 of the note to the financial statements.

12. Investments for account of policyholders

Investments for account of policyholders comprise financial assets at fair value through profit or loss, excluding derivatives, as well as investments in real estate. Refer to note 13 for details on derivatives for account of policyholders.

	2015 £m	2014 £m
Fair value through profit or loss:		
Shares	**12,535.7**	12,796.3
Debt securities	**8,523.2**	9,874.6
Money market and other short term investments	**1,398.5**	598.5
Deposits with financial institutions	**896.8**	1,903.4
Separate accounts and unconsolidated investment funds	**23,582.6**	22,745.9
Other	**0.2**	0.2
	46,937.0	47,918.9
Investments in real estate	**753.1**	854.7
Total investments for account of policyholders	**47,690.1**	48,773.6

12.1 Investments in real estate

	2015 £m	2014 £m
At 1 January	**854.7**	828.5
Additions	**196.8**	45.0
Subsequent expenditure capitalised	**6.7**	7.8
Disposals	**(353.9)**	(67.9)
Fair value gains/(losses)	**48.8**	41.3
At 31 December	**753.1**	854.7

No property interests held under operating leases are classified and accounted for as investment property. The investment property is fully leased out under cancellable operating leases. Rental income is reported as part of investment income in the income statement. There are no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal. All property was last valued in 2015 by independent external appraisers.

The direct operating expenses relating to investments in real estate for account of policyholders that generated rental income was £5.1m (2014: £4.5m).

13. Derivatives

	2015 £m	2014 £m
Assets		
Rights under derivatives contracts not designated as a hedge – general account	**87.7**	23.5
Rights under derivatives contracts designated as cash flow hedge – general account	**-**	2.0
Rights under derivatives contracts not designated as a hedge – for account of policyholder	**665.2**	670.3
	752.9	695.8
Liabilities		
Obligations under derivatives contracts not designated as a hedge – general account	**(264.9)**	-
Obligations under derivatives contracts designated as a cash flow hedge – general account	**-**	(215.0)
Obligations under derivatives contracts not designated as a hedge – for account of policyholder	**(166.4)**	(180.0)
	(431.3)	(395.0)
Total net derivatives	**321.6**	300.8

Of these derivatives, £26.1m net asset is current (2014: £16.7m). See note 1.15 for details on measurement of derivatives.

The fair value of the derivatives reflects the estimated amounts that the Company would receive or pay to terminate the contracts on the reporting date. Market quotes are available for many derivatives; for those products without readily available market quotes, generally accepted valuation models, such as option pricing, are used to estimate fair value.

The Company uses derivatives as part of the asset management process in both the unit linked and with profits funds. The use of derivatives is either for efficient portfolio management or for the reduction of equity, interest rate and currency risk. The Scottish Equitable With Profits Fund also purchased two series of interest rate swaptions in 2001 and 2002 respectively in connection with guaranteed annuity option liabilities. During 2008, further interest rate swaptions and swaps were purchased in connection with general interest rate risk in the Fund. Currency forwards are also used in the management of currency exposure within funds.

Over-the-counter derivatives are also used in the with-profits fund and the non-profit sub fund for the reduction of equity risk. During 2006, a programme was established in the Scottish Equitable With Profits fund, implementing a series of equity puts and put spreads to limit the sensitivity of fund solvency to equity market falls. The non-profit sub fund also holds a number of equity options to reduce the sensitivity of economic capital to significant falls in the UK equity market.

Additionally, the general account fund owns non-sterling bonds and cross currency swaps, the combined effect is to convert the currency flows into fixed sterling flows. The general account fund also owns a variable rate inflation bond and an inflation swap, the combined effect is to convert the variable rate coupons to fixed rate coupons. Cash flow hedge accounting has been discontinued in 2015 due to the hedging instruments no longer qualifying for cash flow hedge accounting following the reclassification of the financial assets from available-for-sale to fair value through profit and loss, see Note 1.1.3.

Exchange traded derivative positions are all cleared through a central clearer and margining is reviewed daily. For over-the-counter derivatives, collateral is used to limit the counterparty exposures arising.

14. Reinsurance assets

Assets arising from reinsurance contracts related to:	2015	2014*
	£m	£m
Life insurance general account	**461.8**	412.9
Life insurance for account of policyholders	**46.0**	75.5
Total reinsurance assets	**507.8**	488.4

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

£4.1m of the reinsurance assets are current (2014: £2.6m).

In December 2015, the Company entered into a reinsurance contract with a third party to transfer longevity risk on a portfolio of annuity contracts issued between 2007 and 2010, with a reserve of £1,212m. The reinsurance contract exchanges annuity claim payments for a fixed set of cashflows and is settled net. Included within reinsurance assets is a deferred cost of reinsurance of £50.7m (2014: Nil) in respect of this contract. The deferred cost of reinsurance represents the difference between the reserve at the date of the reinsurance transaction and the discounted premium payable to the reinsurer (i.e. the fixed cashflows discounted at the same discount rate as that used for the underlying reserves). The deferred cost of reinsurance will be amortised over the life of the reinsurance agreement in line with the insurance contract liability for the related annuity contracts.

Movements during the year in reinsurance assets relating to life insurance general account:	2015	2014*
	£m	£m
At 1 January	**412.9**	409.5
Gross premium and deposits – existing and new business	**323.2**	296.0
Unwind of discount / interest credited	**14.5**	16.6
Change in assumptions:		
- Economic	**(6.2)**	21.4
- Non economic	**(81.2)**	(29.1)
Change to/from other headings	**91.3**	-
Insurance liabilities released and other movements	**(292.7)**	(301.5)
At 31 December	**461.8**	412.9

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3

Movements during the year in reinsurance assets relating to life insurance for account of policyholders:	2015	2014
	£m	£m
At 1 January	**75.5**	65.9
Gross premium and deposits – existing and new business	**46.5**	48.2
Unwind of discount / interest credited	**2.8**	11.7
Insurance liabilities released	**(78.8)**	(50.3)
At 31 December	**46.0**	75.5

15. Deferred expenses

	2015	2014
	£m	£m
DPAC for insurance contracts and investment contracts with discretionary participation features	**1,958.1**	2,032.1
Deferred transaction costs for investment contracts	**47.1**	52.3
Total deferred expenses	**2,005.2**	2,084.4

In regards to deferred expenses £141.2m is current (2014: £111.6m).

	DPAC		Deferred transaction costs	
	2015	2014	2015	2014
	£m	£m	£m	£m
At 1 January	**2,032.1**	2,086.2	**52.3**	58.5
Costs deferred during the year	**72.9**	101.7	-	-
Amortisation through income statement	**(146.9)**	(155.8)	**(5.2)**	(6.2)
At 31 December	**1,958.1**	2,032.1	**47.1**	52.3

16. Other assets and receivables

	Note	2015	2014
		£m	£m
Receivables	16.1	**289.6**	263.6
Accrued income		**265.6**	290.6
Total other assets and receivables		**555.2**	554.2

All accrued income is current.

16.1. Receivables

	2015	2014
	£m	£m
Receivables from policyholders	**30.8**	51.0
Receivables from reinsurers	**23.1**	17.5
Receivables from fellow Aegon N.V. subsidiary undertakings	**6.8**	-
Cash outstanding from assets sold	**25.4**	75.9
Income tax receivable	**75.6**	-
Margins on futures contracts	**101.2**	85.3
Other	**26.7**	33.9
Total receivables	**289.6**	263.6

£15.6m of the income tax receivable is non-current (2014:£nil) and is expected to be received in 2017. All other receivables are current. Carrying amounts disclosed reasonably approximate the fair values at year end.

17. Cash and cash equivalents

	2015	2014
	£m	£m
Cash collateral relating to derivatives	**332.0**	415.1
Short term deposits	**224.8**	300.4
Cash at bank	**2.9**	0.7
Total cash and cash equivalents	**559.7**	716.2

The weighted effective interest rate on short term deposits was 0.3% (2014: 0.4%) and these deposits have an average maturity date of 4 days (2014: 32 days). Cash and cash equivalents are not subject to any restrictions.

For the purposes of the cash flow statement, net cash and cash equivalents comprise the following:

	2015	2014
	£m	£m
Cash and cash equivalents	**559.7**	716.2
Bank overdrafts (note 25)	**(0.1)**	(2.1)
Net cash and cash equivalents	**559.6**	714.1

The carrying amounts disclosed reasonably approximate the fair values as at the year-end.

18. Shareholders' equity

	Note	2015	2014*
		£m	£m
Share capital	18.1	**625.0**	625.0
Retained earnings		**645.7**	395.1
Revaluation reserves	18.2	**6.8**	24.1
Capital contributions		**1,244.2**	1,244.2
Total shareholders' equity		**2,521.7**	2,288.4

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

Nature and purposes of other reserves - Capital Contribution Reserve

The capital contribution reserve is used to record capital contributions received from the immediate parent undertaking.

18.1. Share capital

	2015	2014
Allotted, called up and fully paid:	£m	£m
625,000,000 Ordinary shares of £1 each (2014: 625,000,000 Ordinary shares of £1 each)	**625.0**	625.0

18.2. Revaluation reserves

	Cash Flow Hedging	Available-for-sale Debt Securities	Total
	£m	£m	£m
At 1 January 2015	**-**	**24.1**	**24.1**
Gross revaluation	**-**	**(4.9)**	**(4.9)**
Net gains transferred to income statement	**-**	**(16.8)**	**(16.8)**
Other comprehensive income for the year before tax	**-**	**(21.7)**	**(21.7)**
Tax effect	**-**	**4.4**	**4.4**
Other comprehensive income for the year after tax	**-**	**(17.3)**	**(17.3)**
At 31 December 2015	**-**	**6.8**	**6.8**

	Cash Flow Hedging *	Available-for-sale Debt Securities *	Total *
	£m	£m	£m
At 1 January 2014	-	15.0	15.0
Gross revaluation	-	26.7	26.7
Net gains transferred to income statement	-	(15.1)	(15.1)
Other comprehensive income for the year before tax	-	11.6	11.6
Tax effect	-	(2.5)	(2.5)
Other comprehensive income for the year after tax	-	9.1	9.1
At 31 December 2014	-	24.1	24.1

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

The revaluation accounts for available-for-sale investments include unrealised gains and losses on these investments, net of tax. Upon sale, the amounts realised are recognised in the income statement. Upon impairment, unrealised losses are recognised in the income statement. No amounts have been released from equity to be included in the initial measurement of non-financial assets or liabilities.

19. Insurance contracts

	2015 £m	2014* £m
At 1 January	**9,497.5**	8,548.2
Gross premium and deposits – existing and new business	**455.1**	464.5
Unwind of discount / interest credited	**266.3**	362.9
Change in assumptions:		
- Economic	**(270.8)**	1,093.6
- Non economic	**(215.4)**	(84.9)
Insurance liabilities released and other movements	**(881.3)**	(886.8)
At 31 December	**8,851.4**	9,497.5

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

20. Insurance contracts for account of policyholders

		2015 £m	2014 £m
At 1 January		**5,284.8**	3,529.2
Gross premium and deposits – existing and new business		**2,069.6**	1,569.8
Investment return credited		**161.7**	520.1
Insurance liabilities released		**(676.0)**	(334.3)
Transfer from investment contracts for account of policyholders	Note 22	**2,557.6**	-
At 31 December		**9,397.7**	5,284.8

21. Investment contracts

	2015 £m	2014 £m
At 1 January	**290.0**	388.1
Investment contract liabilities added/(released)	**47.0**	(98.1)
At 31 December	**337.0**	290.0

22. Investment contracts for account of policyholders

	2015 £m	2014 £m
Without discretionary participation features:	**2,403.2**	2,659.7
With discretionary participation features:	**36,669.0**	41,632.0
Total investment contracts for account of policyholders	**39,072.2**	44,291.7

With discretionary participation features:		2015 £m	2014 £m
At 1 January		**41,632.0**	41,584.0
Gross premium and deposits – existing and new business		**1,570.4**	1,875.3
Investment contract liabilities released		**(6,034.2)**	(5,480.9)
Investment return credited		**2,058.4**	3,653.6
Transfer to insurance contracts for account of policyholders	Note 20	**(2,557.6)**	-
At 31 December		**36,669.0**	41,632.0

Investment contracts with discretionary participation features are not measured at fair value and there is currently no agreed definition of fair value for discretionary participation features. In the absence of such a definition, it is not possible to provide a range of estimates within which a fair value is likely to fall. There is no active market for these instruments, which will be settled with policyholders in the normal course of business.

Changes in the fair value of investment contracts without discretionary participation features that are designated as fair value through profit and loss were not attributable to the change in the Company's credit spread. There are no significant differences between the carrying amount of these financial liabilities and the contractual amount payable at maturity (net of surrender penalties).

23. Deferred revenue liabilities

	2015	2014*
	£m	£m
At 1 January	**818.4**	827.9
Income deferred	**46.0**	16.7
Release to income statement	**(25.4)**	(26.2)
At 31 December	**839.0**	818.4

£25.0m of deferred revenue liabilities are current (2014: £23.1m).

The deferred cost of reinsurance represents the difference between the reserve at the date of the reinsurance transaction and the discounted premium payable to the reinsurer (i.e. the fixed cashflows discounted at the same discount rate as that used for the underlying reserves). The deferred cost of reinsurance will be amortised over the life of the reinsurance agreement in line with the insurance contract liability for the related annuity contracts.

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

24. Deferred tax liabilities

	2015	2014*
	£m	£m
Deferred tax liabilities	**157.9**	**45.1**

	Financial Assets	Insurance contracts	Deferred expenses	Deferred Revenue	Losses	Other	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2015	-	**(177.7)**	**375.3**	**(160.4)**	-	**7.9**	**45.1**
Change in deferred tax rate	-	**(3.4)**	**(17.1)**	-	**11.8**	**(0.6)**	**(9.3)**
Charged to income statement	**4.4**	**246.8**	**(26.3)**	**160.4**	**(255.7)**	**(3.1)**	**126.5**
Charged to other comprehensive income	**(4.4)**	-	-	-	-	-	**(4.4)**
At 31 December 2015	-	**65.7**	**331.9**	-	**(243.9)**	**4.2**	**157.9**

	Financial Assets*	Insurance Contracts*	Deferred expenses	Deferred Revenue*	Losses	Other*	Total*
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2014	-	13.3	393.3	(161.5)	(153.8)	(14.6)	76.7
Change in deferred tax rate	-	14.6	1.0	-	(12.8)	0.1	2.9
Charged to income statement	(2.5)	(205.6)	(19.0)	1.1	166.6	22.4	(37.0)
Charged to other comprehensive income	2.5	-	-	-	-	-	2.5
At 31 December 2014	-	(177.7)	375.3	(160.4)	-	7.9	45.1

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

The UK tax regime for insurance companies splits earnings between Life business and Pension business. The deferred tax liability shown above comprises a deferred tax liability of £165.3m in respect of Pension business and a deferred tax asset of £7.4m in respect of the Life business "Income less Expenses" basis of taxation (2014: £48.6m in respect of Pension business profits and a deferred tax asset of £11.7m in respect of the Life business "Income less Expenses" basis of taxation). The £7.4m is made up of a deferred tax asset in respect of Excess Expenses of £28.2m offset by a £20.8m deferred tax liability in relation to Capital Gains. Under the taxation rules, the deferred tax asset in respect of Life business can only be recovered against future Life business investment income and gains. The critical accounting estimates and judgements relating to the recovery of this deferred tax asset are described in note 2.6.

No deferred tax asset is recognised on the balance sheet in respect of policyholder capital losses arising under capital gains tax legislation of £21m (2014: £21m). In addition, no deferred tax asset has been recognised in respect of excess management expenses of £220m (2014: £220m). In 2015, there was no change to the recognition of the deferred tax asset in respect of excess management expenses (2014: £12m). The value of unrecognised deferred tax asset in respect of excess management expenses is £44m (2014: £44m). The losses and excess management expenses may carry forward without expiry.

25. Other liabilities

	2015	2014
	£m	£m
Payables due to policyholders	**169.4**	137.4
Payables due to brokers and agents	**3.2**	4.8
Payables out of reinsurance	**102.0**	10.6
Social security and taxes payable	**8.3**	9.1
Investment creditors	**40.2**	54.0
Cash collateral	**332.0**	415.1
Bank overdrafts	**0.1**	2.1
Payables to fellow Aegon N.V. subsidiary undertakings	**9.6**	8.1
Income tax payable	**-**	43.2
Other creditors and accruals	**60.0**	57.4
Total other liabilities	**724.8**	741.8

£637.7m of the other liabilities are current (2014: £741.8m). The carrying amounts disclosed reasonably approximate the fair values at year end. Included within payables out of reinsurance is a reinsurance liability transferred from note 14 reinsurance assets of £91.3m (2014: nil).

26. Capital and solvency

(a) The capital available as at 31 December 2015 to meet regulatory capital requirements under Pillar 1 can be derived from the Company's accounts as shown below. All capital within the firm falls within PRA's core tier one definition.

	WPSF	Other	2015	2014*
	£m	£m	£m	£m
Share capital	**-**	**625.0**	**625.0**	625.0
Revaluation reserves	**-**	**6.8**	**6.8**	24.1
Capital contribution reserve	**-**	**1,244.2**	**1,244.2**	1,244.2
Retained earnings	**-**	**645.7**	**645.7**	395.1
	-	**2,521.7**	**2,521.7**	2,288.4
Adjustments:				
Pillar 1 excess WPSF assets	**671.7**	**-**	**671.7**	679.6
Assets in excess of market & counterparty limits	**-**	**(25.0)**	**(25.0)**	(21.0)
Asset valuation differences	**-**	**59.5**	**59.5**	69.5
Liability valuation differences*	**-**	**830.2**	**830.2**	729.2
Deferred acquisition and transaction cost assets	**-**	**(2,005.2)**	**(2,005.2)**	(2,084.4)
Capital to meet Pillar 1 regulatory requirements	**671.7**	**1,381.2**	**2,052.9**	1,661.3

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

(b)

	Available Capital Before CRR 2015 £m	Capital Resources Requirement (CRR) 2015 £m	Available Capital After CRR 2015 £m
With Profits Subfund (WPSF)	671.7	671.7	-
Non Profit Subfund (NPSF)	771.7	586.4	185.3
Shareholder's Fund	609.5	-	609.5
Total	2,052.9	1,258.1	794.8

	Available Capital Before CRR 2014 £m	Capital Resources Requirement (CRR) 2014 £m	Available Capital After CRR 2014 £m
With Profits Subfund (WPSF)	679.6	679.6	-
Non Profit Subfund (NPSF)	180.1	538.2	(358.1)
Shareholder's Fund	801.6	-	801.6
Total	1,661.3	1,217.8	443.5

In accordance with the Scheme of Demutualisation, free capital in the WPSF is not freely available for use by the NPSF or Shareholder's Fund and vice versa. The Scheme of Demutualisation also sets out the circumstances under which the NPSF may be required to provide support to the WPSF.

(c) Change in Available Capital after CRR

	WPSF £m	NPSF £m	S/F £m	Total £m
At 1 January 2015	-	(358.1)	801.6	443.5
Changes in assumptions				
Default risk provision	-	30.6	-	30.6
Mortality and morbidity	-	186.9	-	186.9
Economic assumption changes	-	17.5	-	17.5
Unit cost and other assumptions	-	7.4	-	7.4
Investment & persistency impacts (see note 1)	(8.9)	128.5	(192.1)	(72.5)
Net new business strain (see note 2)	-	(110.4)	-	(110.4)
Emerging surplus on in-force	-	344.5	-	344.5
Change in capital requirements	7.9	(48.2)	-	(40.3)
Miscellaneous -				
Staff pension scheme contributions	-	(17.7)	-	(17.7)
Project and restructure costs	-	(17.9)	-	(17.9)
Interfund tax transfers	-	78.0	-	78.0
AFS Bond Tax	-	8.0	-	8.0
Model and Data developments	-	5.9	-	5.9
Legacy provision	-	4.5	-	4.5
Service company funding	-	(6.1)	-	(6.1)
DWP capital requirements	-	(68.1)	-	(68.1)
Others	1.0	-	-	1.0
At 31 December 2015	-	185.3	609.5	794.8

	WPSF	NPSF	S/F	Total
	£m	£m	£m	£m
At 1 January 2014	-	(282.8)	718.6	435.8
Changes in assumptions				
Default risk provision	-	8.5	-	8.5
Mortality and morbidity	-	72.1	-	72.1
Economic assumption changes	-	(21.2)	-	(21.2)
Unit cost and other assumptions	-	(4.8)	-	(4.8)
Investment & persistency impacts (see note 1)	75.6	(51.3)	8.6	32.9
Net new business strain (see note 2)	-	(173.4)	-	(173.4)
Emerging surplus on in-force	-	333.8	-	333.8
Change in capital requirements	(80.9)	(48.1)	-	(129.0)
Miscellaneous -				
Financial reinsurance treaties	-	(38.4)	-	(38.4)
Staff pension scheme contributions	-	(15.7)	-	(15.7)
Capital injections	-	-	15.6	15.6
Repayment of inadmissible intra-group loans	-	-	88.4	88.4
Interfund cash movements	-	29.6	(29.6)	-
Project and restructure costs	-	(95.7)	-	(95.7)
Interfund tax transfers	-	21.1	-	21.1
AFS Bond Tax	-	(76.9)	-	(76.9)
Legacy provision	-	(10.3)	-	(10.3)
Model and Data Developments	-	(7.7)	-	(7.7)
Others	5.3	3.1	-	8.4
At 31 December 2014	-	(358.1)	801.6	443.5

Notes

1. Shows the combined impact of the Asset Liability Management (ALM) policy, where we have chosen not to match the regulatory position and policyholder behaviour (e.g. lapses under with-profit policies with guarantees) will generally increase available capital in the WPSF.

2. Shows the combined impact of initial expenses and commission on new business.

(d) Only the with profits business within the WPSF is subject to a "realistic" assessment of liabilities. In the table above, the WPSF results are consistent with PRA's Pillar 1 requirements.

(e) Net policyholder liabilities (PRA Basis)

		2015	2014
		£m	£m
WPSF	With profits	**5,807.1**	6,351.2
	Other	**702.8**	765.3
NPSF	Unit-Linked	**38,465.8**	39,112.0
	Other	**8,772.1**	9,440.1

(f) The WPSF and NPSF represent a notional subdivision of a single long-term insurance fund, consistent with the Scheme of Transfer of business from Scottish Equitable Life Assurance Society to Scottish Equitable plc on 31 December 1993.

(g) The WPSF is a mutual subfund in which the shareholder has no financial interest beyond an annual management charge that is taken from unitised with profits funds at the same rate as on equivalent unit-linked funds and other charges per the Scheme of Demutualisation. The shareholder has a 100% interest in the NPSF.

(h) As the regulatory capital standard is market consistent, the level of available capital will fluctuate with market conditions, in particular with the level of equity markets and fixed interest yields. However, in general terms the level of regulatory capital will reduce if equity markets and fixed interest yields fall, credit spreads widen, and vice versa.

(i) The Company aims to manage the available capital in the WPSF, after deduction of the CRR, to a long-term position of zero, consistent with the need to distribute the estate as the fund reduces in size. Risk mitigation strategies adopted (both now and in future) must be consistent with representations made to policyholders.

(j) Liabilities within the NPSF are either perfectly matched (unit-linked business) or closely matched (non-profit business).

(k) The Company's overall approach to capital management is described in the Risk and Capital Management and Financial Instruments section of the Strategic Report. It is expected that the NPSF, when taken with the shareholder's fund, will be managed to be independent of capital resources in the WPSF. Its risk profile is monitored by reference to our economic capital positions; decisions as to the terms on which we should write business are assessed according to our shareholder's chosen financial reporting measures (e.g. Market Consistent Value of New Business (MCVNB)) guided by the economic capital impact.

(l) The Company's economic solvency position should be maintained to a level such that it would not default economically on its obligations to policyholders should any "plausible" scenarios from the past recur.

(m) The Company should not be vulnerable to "plausible" events and so should be well diversified in the risks it takes. Risk concentrations at country unit and global level are monitored quarterly using metrics that may change from time to time. These metrics are considered by the Company's Risk and Capital Committee which amongst other activities, issues:

- Policies to help reduce the possibility of undue risk concentration.
- Guidance as to which types of risk it may be attractive to write more of on a worldwide, consolidated basis.

(n) The objective of the Company in managing capital is to ensure that it maintains its strong financial strength. The level of additional capital held in the business is set in the form of a capital buffer representing the additional capital required in the business to be able to withstand adverse plausible events whilst still being able to meet regulatory capital requirements.

(o) The Company's capital position was strengthened in 2014 by repayments of inadmissible loans by the Company's immediate parent undertaking, totalling £88.4m. The repayments in 2014 were financed by Aegon UK plc. The company also received a capital contribution of £15.6m in 2014.

(p) The Company has met its regulatory capital requirements during 2015 and 2014.

27. Capital commitments, contingent liabilities and charges

(a) As at 31 December 2015 there were no material future capital commitments (2014: nil). There were no material contracts for capital expenditure for which no provision had been made in the accounts (2014: nil).

(b) The directors have identified an element of risk in connection with overseas taxation, which could potentially give rise to a tax impact of £6m (2014: £6m), which would be borne by the shareholder. The directors believe the likelihood of this shareholder impact crystallising is possible but not probable and therefore no provision has been made in these financial statements.

(c) Obligations under leases:
The Company has entered into commercial leases on certain properties. The duration of these leases ranges between 2 months and 22 years. Future minimum rentals payable under non-cancellable operating leases are as follows:

	2015	2014
	£m	£m
Not later than one year	**7.1**	7.2
After one year but no more than five years	**28.5**	28.5
After five years	**152.7**	163.9
Total obligations under leases	**188.3**	199.6

(d) Charges

The Company has granted a Deed of Charge (incorporating a floating charge) in favour of Winterthur Pension Funds UK Limited (Winterthur), created on 12 October 2006, relating to an external fund link the Company has with Winterthur. The reserves accepted as at 31 December 2015 were £33.1m (2014:£28.8m).

The Company also granted a bond and floating charge to Guardian Assurance plc on 30 December 2005 in respect of reinsurance contracts (relating to annuities, other classes of insurance business) between the Company and Guardian Assurance. The reserves accepted as at 31 December 2015 were £839m (2014: £938.8m). Guardian Assurance plc was a fellow subsidiary of the Company's ultimate parent undertaking Aegon N.V. until 23 November 2011 when it was sold to a third party. On 23 November 2011, the Company also granted a floating charge to Guardian Assurance plc in respect of the Company's payment obligations under the reinsurance contracts.

The Company granted a Deed of Charge (incorporating a floating charge) in favour of Skandia Life Assurance Company Limited (now known as Old Mutual Wealth Life Assurance Limited) ("Old Mutual"), created on 8 November 2012, relating to a reinsurance contract between the Company and Old Mutual. The reserves accepted as at 31 December 2015 were nil (2014: £21.2m).

The Company granted a Security Assignment (incorporating a fixed charge over certain collateral accounts) on 17 May 2013 in favour of a corporate policyholder, relating to a unit linked life insurance policy. The value of the fixed charge as at 31 December 2015 is £84.5m (2014: £85.4m).

The Company granted a Deed of Charge (incorporating a fixed charge) in favour of Friends Life WL Limited, created on 18 October 2013, relating to a reinsurance contract between the Company and Friends Life WL Limited. The value of the fixed charge as at 31 December 2015 is £13.3m (2014: £12.1m).

28. Risk management

28.1. General

The Company is exposed to non- financial and financial risks. Non-financial risks incorporating insurance risks are mortality/ morbidity (primarily longevity), lapses, and operational risk including legal, compliance and financial crime risks. The Company is also exposed to broader strategic risks. The main financial risks are credit risk, liquidity risk and market risk, with the principal elements of market risk being interest rate risk, equity price risk and currency risk.

Exposure to these risks is monitored by the Scottish Equitable plc Board, and appropriate sub-committees of the Board (in particular the Board Risk and Capital Committee) and appropriate Executive/Management Committees (in particular the Insurance Executive Committee), particularly as part of the Individual Capital Assessment ("ICA") process required by PRA under its Prudential Sourcebook for Insurers.

In the quantitative analyses of credit and liquidity risk that follow assets held within unit-linked funds and the WPSF have been excluded. We consider this principle, which is unchanged from the prior year, to be appropriate as the risks are principally borne by the policyholder rather than the shareholder. The shareholder's exposure to these risks in respect of policyholder funds is as follows:

- In respect of unit linked funds, exposure to credit risk is limited to the impact that credit risk has on annual management charges collected from unitised fixed interest funds. Liquidity risk is limited as claims payments are met from the sale of unit linked assets. In respect of unit linked commercial property funds, the Company has the right to defer payment of certain withdrawals to allow for the orderly sale of properties so as to provide liquidity for the fund.

- In respect of the WPSF the shareholder has no financial interest other than certain charges, with claims being met from the sale of WPSF assets. The shareholder's exposure to guarantees in the WPSF is described in the Fund Structure paragraph of the Risk and Capital Management and Financial Instruments section of the Strategic Report.

28.2. Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause the Company to incur a financial loss. An indication of the Company's exposure to credit risk is the quality of the investments and counterparties with which it transacts. The Company manages credit risk exposure by individual counterparty, sector and asset class, including cash positions. The Company is most exposed to credit risk on debt securities and money market investments, derivative financial instruments, cash and cash equivalents and reinsurance arrangements. Debt securities and money market investments mainly comprise government bonds and corporate bonds. The Company prefers to work only with reinsurance companies that have a strong credit rating subject to an economic assessment of the terms on offer. Using a reinsurer with a credit rating below AA requires approval under Aegon UK's governance process as well as approval by Aegon's Group Reinsurance Use Committee in The Hague. Where the Company enters into stock lending and repurchase arrangements credit risk is substantially reduced due to collateral arrangements.

Aegon N.V. operates a Credit Name Limit Policy under which limits are placed on the aggregate exposure that it has to any one counterparty. Limits are placed on the exposure at both group level and individual country units. The limits placed on the UK relate primarily to the Company with the limits being agreed by management as suitable for the size and nature of the Company's business. The limits also vary by a rating system, which is a composite of the main rating agencies (S&P, Moody's and Fitch) and Aegon N.V.'s internal rating of the counterparty. If an exposure exceeds the stated limit, then the exposure must be reduced to the limit for the Company and rating category as soon as possible.

The Company follows a Credit Name Limit Policy (CNLP) in line with Aegon N.V. Under the CNLP a composite rating is used, which is based on a combination of the ratings of the constituents mentioned. The rating used is the lower of the external rating and the internal rating.

The following tables give an indication of the level of creditworthiness of those categories of assets that are most exposed to credit risk, using principally ratings prescribed by major rating agencies.

28.2.1 The first table shows financial assets (and excludes reinsurance) and the second table shows reinsurance assets.

	2015	2014
	£m	£m
AAA	**542.8**	503.6
AA	**4,552.1**	4,251.8
A	**2,878.4**	3,672.7
BBB	**1,946.7**	1,721.1
BB	**137.7**	115.2
B	**1.3**	2.4
CCC or lower	**0.7**	1.4
Assets not rated	**87.7**	28.2
Total Assets by Credit Risk	**10,147.4**	10,296.4

Financial assets above comprise:

	2015	2014
	£m	£m
Derivative financial instruments	**87.7**	25.5
Debt securities and money market investments	**9,832.0**	9,969.8
Cash and cash equivalents	**227.7**	301.1
	10,147.4	10,296.4

In respect of the Company, investments in subsidiaries and loans to other Aegon N.V. group undertaking are not rated.

The ratings for reinsurance assets are:	2015	2014*
	£m	£m
AA	**281.7**	279.5
A	**180.1**	101.4
Total Reinsurance by Credit Rating	**461.8**	380.9

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

28.2.2 Credit risk concentrations by sector for general account debt securities and money market investments are as follows:

	2015	2014
	£m	£m
Asset backed securities:		
Asset backed securities - Other	**1,487.4**	1,647.8
Commercial mortgage backed securities	**434.6**	336.5
Residential mortgage backed securities	**15.8**	16.6
Financial	**1,651.9**	1,918.6
Industrial	**1,706.1**	1,855.8
Utility	**720.1**	782.8
Sovereign exposure	**3,816.1**	3,411.7
Total Credit Risk Concentrations	**9,832.0**	9,969.8

28.2.3 *Structured entities*

The Company's investments in unconsolidated structured entities such as RMBSs, CMBSs, ABSs and some of the investment funds for general accounts are presented in the line item 'Investments' of the statement of financial position.

The Company's interests in these unconsolidated structured entities can be characterised as basic interests, the Company does not have loans, derivatives or other interests related to these investments. Specifically for RMBSs, CMBSs and ABSs the maximum exposure to loss is equal to the carrying amount, which is reflected in the credit risk concentration table regarding debt securities and money market investments (28.2.2). To manage credit risk the company invests primarily in senior notes of RMBSs, CMBSs and ABSs. The composition of the RMBSs, CMBSs and ABSs portfolios of the Company are widely dispersed looking at the individual amount per entity, therefore the Company only has non-controlling interests in individual unconsolidated structured entities.

The Company did not provide financial or other support to unconsolidated structured entities. Nor does the Company have intentions to provide financial or other support to unconsolidated structured entities in which the Company has an interest or previously had an interest. The Company did not recognise other interests in unconsolidated structured entities such as commitments, guarantees, provisions, derivative instruments or other liabilities.

For RMBSs, CMBSs and ABSs in which the company has an interest at reporting date, the following table presents total income received from those interests. The Investments column reflects the carrying values recognised in the statement of financial position of the Company's interests in RMBSs, CMBSs and ABSs.

	Total income for the year ended December 31, 2015 (£m)			December 31, 2015 (£m)
	Interest income	**Total gains and losses**	**Total**	**Investments**
Residential mortgage backed securities	**0.1**	**2.9**	**3.0**	**15.8**
Commercial mortgage backed securities	**4.4**	**87.6**	**92.0**	**434.6**
ABS's – Other	**17.3**	**279.6**	**296.9**	**1,487.4**
Total	**21.8**	**370.1**	**391.9**	**1,937.8**

	Total income for the year ended December 31, 2014 (£m)			December 31, 2014 (£m)
	Interest income	Total gains and losses	Total	Investments
Residential mortgage backed securities	0.9	3.4	4.3	16.6
Commercial mortgage backed securities	19.2	87.4	106.6	336.5
ABS's – Other	80.9	403.5	484.4	1,647.8
Total	101.0	494.3	595.3	2,000.9

There were no impairments included in the total income for the year ended 31 December 2015 relating to unconsolidated structured entities (2014: £nil).

28.2.4 *European Peripheral Country Exposure*

In Europe, countries such as Portugal, Italy, Ireland, Greece and Spain have been particularly affected by financial and economic conditions creating a heightened perceived risk of default on the sovereign debt of those countries. The Company has no direct exposure to the governments of the above peripheral European countries.

The table below shows the fair value of the Company's exposure to financial institutions of these countries, based on the country where the ultimate parent is domiciled. All the exposure relates to general account debt securities.

		Fair value 2015	Fair value 2014
		£m	£m
Portugal	Corporates	**13.7**	14.0
Italy	Corporates	**110.7**	114.2
Ireland	Other financial institutions	**-**	74.7
Spain	Banks	**35.4**	35.9
	Corporates	**111.4**	114.5
		271.2	353.3

There is regular reporting of exposure to these countries to the Board and management committees. All exposure to Banks and Other Financial Institutions is to subordinated bonds.

In addition to the above exposure, the Company's General Account also has further indirect exposure to the governments of peripheral European countries. These further indirect exposures mainly arise through holdings in other European sovereigns and financial institutions who themselves have exposure to peripheral European sovereigns (a second-order exposure) or who themselves have exposure to financial institutions, corporates and individuals in peripheral European countries (a third-order exposure). The table below provides, in respect of general account debt securities, fair value of our exposure to sovereigns and financial institutions of non-peripheral European countries:

		Fair value 2015	Fair value 2014
		£m	£m
Belgium	Sovereign	**99.5**	63.6
Denmark	Banks	**23.0**	23.0
France	Sovereign	**91.9**	95.2
	Banks	**91.6**	113.5
	Other financial institutions	**23.8**	23.4
Germany	Sovereign	**42.2**	43.8
	Banks	**18.9**	18.9
Netherlands	Sovereign	**2.7**	5.8
	Banks	**89.2**	92.3
Norway	Banks	**-**	15.5
Sweden	Banks	**17.5**	17.8
	Other financial institutions	**3.7**	3.9
Switzerland	Banks	**35.2**	36.2
	Other financial institutions	**33.0**	32.9
UK	Sovereign	**3,286.3**	2,907.1
	Banks	**210.6**	234.0
	Other financial institutions	**339.1**	426.3
Supranational	Sovereign	**159.2**	165.6
		4,567.4	4,318.8

Included within the table above is £328.2m (2014: £201m) of bonds carried at amortised cost. The amortised cost of the bonds is analysed below.

		2015	2014
		£m	£m
UK	Sovereign	**322.6**	195.5
	Banks	**2.9**	2.9
	Other financial institutions	**2.0**	1.9
France	Banks	**0.7**	0.7
		328.2	201.0

Reporting to the Board and management committees related to the potential impact of peripheral European countries in stressed situations also considers contagion to banks and financial institutions in the countries listed above.

28.2.5 Past due assets or impaired assets

General account impaired assets at 31 December 2015 have a market value of £0.7m (2014: £1.4m). Financial assets that are past due but not impaired as at 31 December 2015 have a market value of £nil (2014: nil).

28.2.6 Collateral

As at 31 December 2015 general account stock lent to third parties, under standard market terms, totalled £3.7m (2014: £511.5m) for which cash collateral of £3.8m (2014: £345.5m) had been received and asset collateral of £nil (2014: £175.7m).

Investments pledged as collateral for derivative liabilities totalled £3.6m (2014: £nil). These assets are pledged under standard market terms.

Investments received as collateral for derivative assets totalled £250.3m (2014: £1.5m). The Company does not have the right to sell or repledge these investments.

The Company has entered into two collateral agreements in relation to two reinsurance agreements. As at 31 December 2015, debt securities of £947.4m have been pledged (2014: £1,016.2m). The assets have been placed in a custodian account to which the counterparty only gains access on a contractual default or the liquidation of the Company.

28.2.7 General Account – maximum exposure

The Company's maximum exposure to credit risk from investment in general account financial assets is fully reflected on the Statement of financial position. There is no collateral backing the general account financial assets in 2015 (2014: nil).

28.3. Liquidity risk

The tables below sets out a maturity analysis for the Company's general account financial liabilities (non-derivatives and derivatives) based on remaining contractual maturities.

28.3.1 Maturity analysis – gross undiscounted cash flows (for non-derivatives)

	On Demand 2015 £m	< 1 yr Amount 2015 £m	1<5 yrs Amount 2015 £m	5<10 yrs Amount 2015 £m	>10 yrs Amount 2015 £m	Total Amount 2015 £m
Other loans	-	-	-	-	-	-
Other financial liabilities	0.1	220.9	16.1	18.8	52.2	308.1

	On Demand 2014 £m	< 1 yr Amount 2014 £m	1<5 yrs Amount 2014 £m	5<10 yrs Amount 2014 £m	>10 yrs Amount 2014 £m	Total Amount 2014 £m
Other loans	-	2.0	-	-	-	2.0
Other financial liabilities	2.1	244.6	-	-	-	246.7

All investment contract liabilities are repayable in less than one year.

28.3.2 Maturity analysis (derivatives) (Contractual cash flows) [1]

	< 1 yr Amount 2015 £m	1<5 yrs Amount 2015 £m	5<10 yrs Amount 2015 £m	>10 yrs Amount 2015 £m	Total Amount 2015 £m
Gross settled:					
Cash inflows	28.2	205.1	204.1	377.8	815.2
Cash outflows	(42.0)	(269.9)	(281.0)	(511.8)	(1,104.7)
	(13.8)	(64.8)	(76.9)	(134.0)	(289.5)
Net settled:					
Cash inflows	3.8	15.4	19.2	183.8	222.2
Cash outflows	(0.9)	(3.8)	(5.5)	(272.4)	(282.6)
	2.9	11.6	13.7	(88.6)	(60.4)

	< 1 yr Amount 2014 £m	1<5 yrs Amount 2014 £m	5<10 yrs Amount 2014 £m	>10 yrs Amount 2014 £m	Total Amount 2014 £m
Gross settled:					
Cash inflows	34.6	196.7	220.0	398.6	849.9
Cash outflows	(48.1)	(257.1)	(291.3)	(519.4)	(1,115.9)
	(13.5)	(60.4)	(71.3)	(120.8)	(266.0)
Net settled:					
Cash inflows	3.8	15.4	19.2	187.7	226.1
Cash outflows	(0.9)	(3.8)	(5.5)	(277.4)	(287.6)
	2.9	11.6	13.7	(89.7)	(61.5)

[1] Financial derivatives include all derivatives regardless whether they have a positive or negative value. The cash outflow represents the pay leg of the derivative.

The Company's liquidity management is based on expected claims and benefit payments rather than on the contractual maturities. The projected cash benefit payments below are based on management's best estimates of the expected gross benefits and expenses, partially offset by the expected gross premiums, fees and charges relating to the existing business in force. Estimated cash benefit payments are based on mortality, morbidity and lapse assumptions comparable with the Company's historical experience, modified for recently observed trends. Actual payment obligations may differ if experience varies from these assumptions. The cash benefit payments are presented on an undiscounted basis and are before deduction of tax and before reinsurance.

28.4. Financial liabilities relating to insurance and investment contracts [1]

	< 1 yr Amount 2015 £m	**1<5 yrs Amount 2015 £m**	**5<10 yrs Amount 2015 £m**	**>10 yrs Amount 2015 £m**	**Total Amount 2015 £m**
Insurance contracts	**475.9**	**2,072.3**	**2,526.7**	**7,420.0**	**12,494.9**
Insurance contracts for account of policyholders	**841.1**	**3,016.7**	**3,772.9**	**9,680.0**	**17,310.7**
Investment contracts	-	-	-	-	-
Investment contracts for account of policyholders	**3,468.7**	**10,295.4**	**13,407.2**	**37,550.7**	**64,722.0**

	< 1 yr Amount 2014 £m	1<5 yrs Amount 2014 £m	5<10 yrs Amount 2014 £m	>10 yrs Amount 2014 £m	Total Amount 2014 £m
Insurance contracts	505.0	2,112.8	2,575.7	7,740.6	12,934.1
Insurance contracts for account of policyholders	431.5	1,773.6	2,115.7	6,056.5	10,377.3
Investment contracts	-	-	-	-	-
Investment contracts for account of policyholders	2,768.4	11,113.4	14,013.8	46,619.6	74,515.2

[1] The liability amount reflects the discounting for interest as well as adjustments for the timing of other factors as described above. As a result, the sum of the cash benefit payments shown for all years in the table exceeds the corresponding liability amounts included in notes 19 to 22.

28.5. Market Risk

Results of the Company's sensitivity analyses are presented throughout this section to show the estimated sensitivity of Net Income and Shareholders' Equity to various scenarios. For interest rate risk and equity market risk, the analysis shows how these measures would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date. In performing the analyses and determining the potential impact for the financial year, the assumption is made that the financial instrument exposures at the balance sheet date were in existence for a full year. For each sensitivity test the impact of a reasonably possible change in a single factor is shown. The sensitivities do not reflect what the results for the period would have been if risk variables had been different, because, for financial instruments, the analysis is based on the exposures in existence at the reporting date rather than on those that actually occurred during the year. Nor are the sensitivities intended to be an accurate prediction of the Company's future equity or earnings. The analysis does not take into account the impact of future new business, which is an important component of the Company's future earnings. It also does not consider all instruments available to management to respond to changes in financial environment, such as changing investment portfolio allocations or adjusting premiums and crediting rates. Furthermore, the results of the analyses cannot be extrapolated for wider variations since effects are not always linear. No risk management process can clearly predict future results.

28.5.1 *Interest rate risk*

The sensitivity analysis in the table below shows an estimate of the effect of a parallel shift in the yield curve on Net Income and Shareholders' Equity. Increases in interest rates have a negative effect on Net Income and Shareholders' Equity in the current year. Decreases in interest rates have a positive effect on Net Income and Shareholders' Equity in the current year. This impact is small relative to the overall size of the liabilities, which are approximately £8,500m. Assets are invested to match the liability valuation.

	Impact on net income 2015	**Impact on equity 2015**	Impact on* net income 2014	Impact on equity* 2014
Immediate change	**£m**	**£m**	£m	£m
Shift up 100 basis points	(54.4)	(77.6)	11.1	(12.5)
Shift down 100 basis points	67.2	93.7	(28.8)	(1.5)

In respect of 2015 the sensitivity of net income to a 100bp increase in short term (3 month) interest rates combined with a 100bp reduction in long term (10 years) interest rates is an increase in Net Income of £73.1m (2014: £(21.3)m)*. The sensitivity of net income to a 100bp decrease in short term interest rates combined with a 100bp increase in long interest rates is a reduction in Net Income of £(60.4)m (2014: £3.6m)*.

* Amounts have been restated for a voluntary change in accounting policy as disclosed in note 1.1.3.

28.5.2 *Equity price risk*

The sensitivity analysis of Net Income and Shareholders' Equity to changes in equity prices is presented in the table below. The sensitivity of Net Income and Shareholders' Equity reflects the impact of equity price changes on fund related charges and, in respect of the 20% decrease, the impact of equity price changes on equity options held to reduce the sensitivity of economic capital to significant falls in the UK equity market.

	Impact on net income 2015	**Impact on equity 2015**	Impact on net income 2014	Impact on equity 2014
Immediate change	**£m**	**£m**	£m	£m
Equity increase 10%	**26.8**	**26.8**	21.0	21.0
Equity decrease 10%	**46.8**	**46.8**	(13.7)	(13.7)
Equity increase 20%	**63.1**	**63.1**	46.2	46.2
Equity decrease 20%	**169.1**	**169.1**	(16.6)	(16.6)

28.5.3 *Currency risk*

The sensitivity analysis of Net Income and Shareholders' Equity to changes in currency is presented in the table below. The sensitivity of Net Income and Shareholders' Equity primarily reflects the impact of currency changes on fund related charges.

	Impact on net income 2015	**Impact on equity 2015**	Impact on net income 2014	Impact on equity 2014
Immediate change	**£m**	**£m**	£m	£m
GBP increases by 15% against all currencies	**(24.7)**	**(24.7)**	(12.4)	(12.4)
GBP decreases by 15% against all currencies	**25.7**	**25.7**	12.4	12.4

28.6. Underwriting risk

The Company's earnings are impacted by the extent to which actual claims experience is consistent with the assumptions used in setting prices for products and establishing technical liabilities and liabilities for claims. To the extent that actual claims experience is less favourable than the underlying assumptions used in establishing such liabilities, income would be reduced. Furthermore, if these higher claims were part of a permanent trend, the Company may be required to increase liabilities, which could also reduce income. In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force have been recorded as assets on the balance sheet and are being amortised into income over time. If the assumptions relating to the future profitability of these policies (such as future claims, investment income and expenses) are not realised, the amortisation of these costs could be accelerated and may even require write offs due to non-recoverability. This could have a materially adverse effect on the Company's business, results of operations and financial condition.

Sources of underwriting risk include policy lapses and policy claims such as mortality, morbidity and expenses. In general, the Company is at risk if policy lapses increase, as sometimes the Company is unable to fully recover up-front expenses in selling a product despite the presence of commission recoveries or surrender charges and fees. For mortality and morbidity risk, the Company sells certain types of policies that are at risk if mortality or morbidity increases, such as term life insurance, and sells certain types of policies that are at risk if mortality decreases (longevity risk) such as annuity products. The Company is also at risk if expenses are higher than assumed by management.

The Company monitors and manages its underwriting risk by underwriting risk type. Attribution analysis is performed on earnings in order to understand the source of any material variation in actual results from what was expected. The Company also perform experience studies for underwriting risk assumptions, comparing the Company's experience to industry experience as well as combining the Company's experience and industry experience based on the depth of the history of each source to the Company's underwriting assumptions. Where products have flexible policy charges the Company uses these analyses as the basis for modifying these charges, with a view to maintain a balance between policyholder and shareholder interests. The Company also has the ability to reduce expense levels over time, thus mitigating unfavourable expense variation.

Sensitivity analysis of net income and shareholders' equity to mortality underwriting risk and lapse risk is presented in the table below.

	Impact on net income 2015	**Impact on equity 2015**	Impact on net income 2014	Impact on equity 2014
Immediate change	**£m**	**£m**	£m	£m
10% increase in mortality experience	**2.5**	**2.5**	3.4	3.4
10% decrease in mortality experience	**(2.5)**	**(2.5)**	(3.4)	(3.4)
20% increase in lapses	**(7.5)**	**(7.5)**	(8.5)	(8.5)
20% decrease in lapses	**7.5**	**7.5**	8.5	8.5

The sensitivities analysis of net income and shareholders' equity to other underwriting risks as shown below has been assessed. The sensitivities considered represent an increase or decrease of morbidity rates during the relevant year.

- 10% increase in morbidity rates
- 10% decrease in morbidity rates

The above sensitivities did not have a significant impact on net income or shareholder's equity for 2015 or 2014.

28.7. Operational risk

In the normal course of business, reviews of processes and procedures are undertaken to ensure that customers are treated fairly, and to respond to matters raised by policyholders and their representatives. The Company does not believe that material liabilities will arise from such reviews, however there is a risk that the Company is not able to resolve such matters in the manner that it expects.

29. Offsetting, enforceable master netting arrangements and similar agreements

The following table provides details relating to the effect or potential effect of netting arrangements, including rights of set-off associated with the Company's recognised financial assets and recognised financial liabilities.

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the Balance Sheet	Net amounts of financial assets presented in the Balance Sheet	Related amounts not set off in the Balance Sheet		Net amount
Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements				Financial instruments	Cash collateral received (excluding surplus collateral)	
	£m	£m	£m	£m	£m	£m
2015						
Derivatives	**683.7**	-	**683.7**	**344.2**	**325.9**	**13.6**
At December 31	**683.7**	-	**683.7**	**344.2**	**325.9**	**13.6**
2014						
Derivatives	621.8	-	621.8	167.2	414.8	39.8
At December 31	621.8	-	621.8	167.2	414.8	39.8

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the Balance Sheet	Net amounts of financial liabilities presented in the Balance Sheet	Related amounts not set off in the Balance Sheet		Net amount
Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements				Financial instruments	Cash collateral received (excluding surplus collateral)	
	£m	£m	£m	£m	£m	£m
2015						
Derivatives	**366.8**	-	**366.8**	**214.1**	**140.3**	**12.4**
At December 31	**366.8**	-	**366.8**	**214.1**	**140.3**	**12.4**
2014						
Derivatives	325.3	-	325.3	165.8	156.6	2.9
At December 31	325.3	-	325.3	165.8	156.6	2.9

Financial assets and liabilities are not offset in the Balance Sheet.

The Company mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and in ISDA master netting agreements to facilitate Company's right to offset credit risk exposure. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by the Company or its counterparty. Transactions requiring the Company or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit swaps. These transactions are conducted under terms that are usual and customary to standard long-term borrowing, derivative, securities lending and securities borrowing activities, as well as requirements determined by exchanges where the bank acts as intermediary.

30. Related party transactions

(a) Immediate parent undertaking

The entire issued share capital of the Company at the year-end is held by Scottish Equitable Holdings Limited, which is registered in Scotland.

(b) Ultimate parent undertaking

The results of the Company are consolidated in the accounts of Aegon N.V., the ultimate parent undertaking, which is incorporated in the Netherlands. Copies of the consolidated accounts of Aegon N.V. are available to the public and may be obtained from The Company Secretary, Aegon UK plc, Aegon Lochside Crescent, Edinburgh Park, Edinburgh, EH12 9SE.

(c) Year-end balances and transactions with related parties

Administration expenses are recharged to the company at cost by Aegon UK Corporate Services Limited, which is a fellow Aegon N.V. subsidiary (see note 6 for total amount of such transactions). The terms of loans to related parties are described in note 11. All borrowings from related parties, were repaid in 2014. Interest received from and paid to related parties is set out in notes 3 and 8 respectively.

Commissions and expenses include commission paid, at normal market prices, to fellow subsidiary undertakings of £0.2m (2014: £0.2m)

Asset management services are provided to the Company by Kames Capital plc (2014: Kames Capital Management Limited), a fellow Aegon N.V. subsidiary undertaking. Kames Capital plc (2014: Kames Capital Management Limited) provides investment services to the Company at prices which are agreed from time to time between the Company and Kames Capital plc taking into account the size and nature of the service (see note 6 for total amount of such transactions).

Included in fee and commission income in 2014 was £0.1m of fee income from the ultimate parent undertaking Aegon N.V. in respect of a negotiation fee relating to the loan from Barclays Bank plc that was repaid in 2014.

Outstanding payables are unsecured, interest free and cash settlement is generally expected within 30 to 90 days of invoice. Outstanding receivables relate to unsecured, interest free intercompany accounts with no specified credit period. The company has not provided or benefited from any guarantees for any related party receivables or payables.

Year-end balances related to related party transactions are detailed in notes 11, 16.1 and 25.

(d) Compensation of key management personnel (including directors)

	2015 £000	2014 £000
Short term employee benefits	**4,144.1**	3,581.4
Post employment employee benefits	**75.5**	74.7
Other long term benefits	-	-
Termination benefits	-	-
Share based payments	**837.3**	722.1
Total compensation of key management personnel (including directors)	**5,056.9**	4,378.2