Rothesay
Protecting Pensions

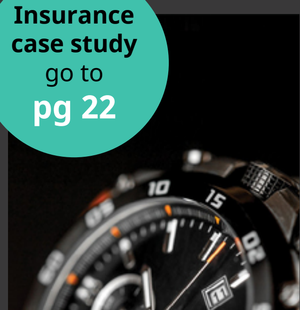
Securing the future

Rothesay Limited
Annual report and accounts 2023

Our purpose

We are dedicated to securing the future for every one of our policyholders.

Insurance case study go to **pg 22**



Q&A with CFO Graham Butcher **pg 32**

Rothesay refers to Rothesay Limited and its subsidiaries, together, the Group.

At a glance

Purpose-built to protect pension schemes and their members' pensions

Who we are

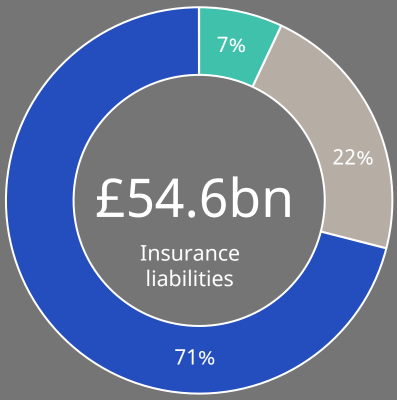
Rothesay is a leading UK specialist pensions insurer, purpose-built to protect pension schemes and their members' pensions. Our singular focus is to secure pension annuities for the future, providing certainty as well as service excellence for our policyholders.

Our careful approach to investment and prudent underwriting mean we are trusted to provide pension solutions by the pension schemes of some of the UK's best known companies including British Airways, Cadbury, the Civil Aviation Authority, the Co-Operative, Morrisons, Smiths Industries and Telent.

Underpinned by sophisticated risk management, our expert in-house investment team is continually developing new ways to drive predictable, dependable returns that reduce risk and create real security.

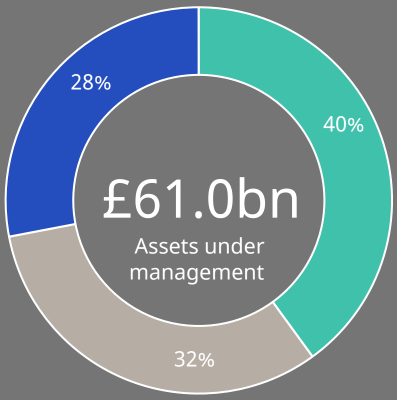
Today, we manage over £61bn in assets, secure the pensions of over 930,000 people, and pay out, on average, over £200m in pension payments each month. We are safeguarding the future for every one of our clients and policyholders, and providing long-term value to our shareholders.

Securing pension annuities from pension schemes and other insurers



- Insurance company acquisitions, 7%
- Back book acquisitions, 22%
- Pension buy-ins/buy-outs, 71%

Backed by high quality investments



- Government securities & cash, 40%
- Corporate bonds & infrastructure, 32%
- Secured lending & mortgages, 28%

2023 performance

£906m

IFRS profit before tax[1] of £906m (2022: loss of £(1,054)m).

£12.7bn

New business premiums **APM** of £12.7bn (2022: £3.3bn).

273%

Solvency capital requirement (SCR) **APM** coverage of 273% (2022: 255%), giving us significant capital for future growth opportunities.

£1,358m

Adjusted operating profit[1] **APM** of £1,358m (2022: £579m).

£7.5bn

Market consistent embedded value (MCEV) **APM** of £7.5bn (2022: £6.4bn) driven by gains from new business and management of the in-force book.

Over £3bn

Invested over £3bn (2022: £8bn) of assets according to our long-term investment strategy including new lifetime mortgages of £0.7bn (2022: £1.6bn).

FIM

Our application to use a Full Internal Model (FIM) was approved by the Prudential Regulation Authority (PRA).

2023 awards

Risk Management Firm of the Year, Insurance Company of the Year and Impact on Customer Experience award.

Gold standard

Re-accredited with the Gold standard by the Pensions Administration Standards Association.

ESG

Maintained
Carbon Neutral®
company certification

50%
Added a target of 50% reduction in the Carbon Intensity of our publicly traded corporate debt portfolio by 2030 (vs our 2020 baseline)

1. Restated 2022 due to the implementation of IFRS 17. See application of IFRS 17 section.

Performance at a glance

New business premium[1] APM

£12.7bn

Group solvency capital requirement (SCR) coverage APM

273%

IFRS profit before tax[2]

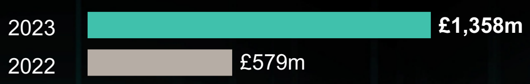
£906m

Longevity reinsured APM

87%

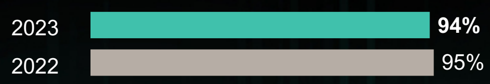
Adjusted operating profit[2] APM

£1,358m



Customer satisfaction APM

94%



Number of policies

934,611

Paid to policyholders in the year

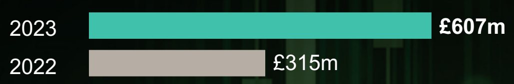
£2.9bn

Assets under management[2] APM

£61.0bn

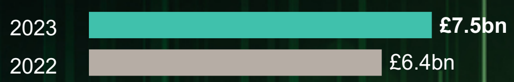
MCEV new business profit[3] APM

£607m



Market consistent embedded value APM

£7.5bn



1. **APM** – Alternative Performance Measure; please see page 36 for further details.
2. Restated 2022 due to the implementation of IFRS 17. See application of IFRS 17 section
3. Restated 2022 MCEV new business to reflect removal of the deduction for allocated expenses which are now shown separately.

A glossary of terms used can be found on page 229.

Section

1

Strategic report

In this section

Every decision that we make is informed by our cautious approach to risk management, conservative investment philosophy and sophisticated technology platform. We challenge ourselves to think originally and creatively so that our business model is best placed to meet the needs of our clients and policyholders.

> A year of strong new business growth with a resilient solvency capital position.

Naguib Kheraj
Chairman

Chairman's statement

2023 proved to be another year of excellent progress for Rothesay and was one of our strongest to date.

2023 was another year that saw significant changes in financial markets with continued global pressures on inflation, and central banks responding by further tightening monetary conditions by raising interest rates. The value of Rothesay's risk management capabilities have again been shown in 2023 as we have been able to safely navigate these conditions whilst retaining significant solvency and liquidity buffers and, at the same time, executing £12.7bn of new business.

Higher interest rates have continued to improve pension scheme funding levels, driving an increased demand for de-risking from pension trustees and their corporate sponsors. Rothesay in 2023 has successfully assisted 12 pension schemes to de-risk, maintaining its market leading position.

The combination of new business and market movements resulted in profits before tax of £906m for 2023 and growth in market consistent embedded value to £7.5bn **(APM)** at year end. During the year we paid an interim dividend of 23p per share, or £351m.

We ended the year with a strong capital position, with SCR (Solvency Capital Requirement) coverage ratio of 273% (2022: 255%), substantially above our normal target range. Following approval from the Prudential Regulation Authority in the first quarter of the year, Rothesay is now using its own full internal model (FIM) to cover all risk components within the SCR.

In addition to the very strong capital position, our two shareholders, GIC and MassMutual, continue to provide outstanding support as long-term shareholders. The current surplus capital position and the commitment of our shareholders means that we are well positioned for the pension risk transfer opportunities anticipated for 2024 and beyond.

We have continued to invest in our people; following a smooth transition of CEO in 2022, the senior management team successfully dealt with a number of retirements through a combination of internal promotions and external hires. Rothesay continues to be a business that can attract and retain top talent and this is the driver of its business performance.

Providing excellent service to the policyholders that we welcome as part of these pension risk transfer transactions remains of utmost importance to the business. I am pleased that, following extensive work by a number of the Board's sub-committees, the Board has approved the assessment that Rothesay has satisfied the obligations of the Consumer Duty. In particular, Rothesay's strategic and cultural purpose is consistent with the Duty, and its governance structure, product governance arrangements and customer policies will support the continued successful embedding and monitoring post implementation.

Our own operations are certified carbon neutral in accordance with the CarbonNeutral Protocol, and, as a member of the UN-convened Net-Zero Asset Owner Alliance (NZAOA), we are focused on reducing the carbon intensity of our investment portfolio. During 2022, we saw a 10% reduction for our publicly listed corporate debt and 7% reduction in our total portfolio carbon intensity. We have made a new commitment to reduce the carbon intensity of our publicly traded corporate debt portfolio by 50% in 2030. We also continued to allocate capital to the Rothesay Foundation and are proud to have furthered our partnership with Age UK and other organisations to use a portion of our earnings to support important and relevant charitable and community endeavours.

In 2023, our shareholders each nominated an additional Director to the Board. We are delighted to have Ajun Gupta from GIC and Geoff Craddock from MassMutual as Directors. They each bring a wealth of experience and hold senior positions in their respective organisations. Both individuals were already familiar with our business and key people and were able to make an immediate contribution to board deliberations.

At the end of September 2023, Andrew Stoker stepped down from his position as Chief Financial Officer, and from the Board, after nine years in the role. During his Rothesay tenure, Andrew was key in supporting the growth of the business including through a number of regulatory and reporting changes, and I thank him for his hard work and commitment to the firm throughout his time here. I am pleased to say that Graham Butcher has been appointed as our new CFO. Graham is one of Rothesay's longest serving employees and I wish him well in his new role.

On 30 September 2023, Bill Robertson stepped down from the Board, including as Chair of the Audit Committee, having first been appointed in January 2016. On 1 October 2023, Stan Beckers stepped down from the Board, and in April 2023, Jackie Hunt also stepped down from her position on the Board. I thank them all for their contributions whilst at Rothesay. Lisa Arnold and Sophie O'Connor were appointed to the Board as new independent Non-Executive Directors on 10 July 2023 and 1 October 2023, respectively, with Sophie taking on Bill's previous role as Chair of the Audit Committee. These appointments broaden the knowledge and experience of the Board and I am very pleased to welcome our new Board members. In addition to these changes, Terry Miller was appointed as Senior Independent Director.

With a growing pipeline for 2024, significant financial resources and strong backing from our shareholders, we look forward to continuing to develop our business as one of the leading firms in the pension risk transfer sector.

Naguib Kheraj
Chairman
9 February 2024

> Throughout the year we successfully capitalised on the substantial opportunities in our market.

Tom Pearce
Chief Executive Officer

Chief Executive's statement

2023 was one of our strongest ever years, creating very positive momentum going forward.

Improved pension scheme funding as a result of the rise in interest rates relative to 2022, contributions from sponsors and the run-off of closed schemes mean that pension scheme buy-out is increasingly affordable, creating very positive conditions within the Bulk Purchase Annuity (BPA) market. Pension scheme risk transfer volumes in 2023 are estimated to have exceeded £50bn, which is the highest in the history of the market. This momentum is set to only grow, with analysts suggesting that pension risk transfer volumes will continue to increase over the years ahead.

We assisted 12 pension schemes to de-risk in 2023 (2022: 9), generating £12.7bn of new business premiums (2022: £3.3bn), and £906m of IFRS pre-tax profits (2022: restated loss of £1,054m) and new business embedded value of £607m **(APM)** (2022 restated: £315m). This included transactions with six existing clients. Our performance throughout the year was one of our strongest ever, with 2024 having the potential to be even busier given our record new business pipeline.

With such positive improvements in scheme funding levels, a key focus has been to ensure that we are able to provide schemes with the simplest path to locking in those funding levels quickly and safely through a risk transfer transaction. To this end, we have developed solutions that offer price certainty from early on in the process by "locking" pricing to the schemes' assets, providing a means for transitioning or transferring schemes' existing asset holdings in full, including illiquid assets, and have prepared our business to provide capacity for even the largest risk transfer transactions. We are proud of our developments in these areas and will continue to put these to use in 2024 and beyond to address the evolving demands of the market.

Outside of the BPA market we continued to see significant changes in financial markets throughout 2023 as rising interest rates began to impact the wider economy, including the failure of Silicon Valley Bank and Signature Bank, and the rescue by UBS of Credit Suisse. While there had been modest improvements in credit markets over the second half of the year, the full impact of the higher rates environment on the economy remains uncertain and so we remain cautious in our underwriting.

Rothesay's business model is designed to protect pensions and deliver growth through all market conditions. These volatile market conditions are demonstrating once again the value of our purpose-built risk management systems and focus on operational excellence. Regular stress testing and live monitoring of the financial, solvency and liquidity position of Rothesay allows us to respond dynamically as the market evolves. This ensured that we ended the year with a very strong SCR coverage **(APM)** of 273% (2022: 255%), substantially above our target operating range, giving us significant excess capital to write further new business and capitalise on the opportunities we are seeing in the market.

IFRS pre-tax profits
£906m
2022: £(1,054)m

Rothesay SCR coverage **(APM)**
273%
2022: 255%

New business premium **(APM)**:
£12.7bn
2022: £3.3bn

Chief Executive's statement continued

In July 2023, we were delighted to receive the European Pensions Award for Risk Management Firm of the Year and in November Rothesay was awarded Insurance Company of the Year at the Insurance Asset Management awards, and the Impact on Customer Experience Award at the Pensions Management Institute Pinnacle Awards.

Group performance

From 1 January 2023, our industry was required to report our financial statements under IFRS 17, the new international insurance contract accounting standard. Adoption of the new standard has not materially impacted Rothesay's solvency position and will not change the ultimate profitability of new business. As a result, changes to IFRS accounting did not impact new business pricing, our dividend policy or our business strategy.

Adjusted operating profits **(APM)** for the year were £1,358m (2022 restated: £579m), driven by profit on new business in addition to release of margins as the business runs off. Operating profits were reduced by the net increase in the Contractual Service Margin (CSM) **(APM)** on new business, as well as borrowing costs, to arrive at IFRS pre-tax profits of £906m (2022 restated loss: £(1,054)m).

Under IFRS 17, the release of profit is spread over the lifetime of the contract and its implementation therefore led to a significant reduction in total equity and lower restated comparative profits for 2022. We have reflected this change in our restated 2022 position. Further details can be found on page 41 and in note A.4.

The increase in assets from new business was partly offset by the run-off of in-force business, with the Group's assets under management still increasing to £61.0bn (2022 restated: £47.0bn).

Following the end of the first half of the year, we approved an interim dividend of 23p per share or £351m. A combination of new business, changes in financial market conditions and the impact of the adoption of IFRS 17 led to MCEV at 31 December 2023 increasing to £7.5bn **(APM)** (2022: £6.4bn), after the payment of the interim dividend.

More details on our MCEV performance can be found in the financial review on page 40.

Risk and capital management

As noted above, 2023 continued to see very volatile markets, particularly in the first half of the year. The duration of our liabilities means that Rothesay's assets and liabilities are particularly sensitive to long-term interest rates and our sophisticated in-house risk management systems again proved vital in managing this and responding quickly to a changing economic environment.

Our investment portfolio is focused on highly rated assets, many of which benefit from high quality collateral. The quality of our investment portfolio, combined with active monitoring and management of our credit portfolio, means that we continue to be well-positioned to withstand adverse market conditions.

We continue to hedge market and longevity risk exposures and benefit from robust collateral arrangements which mitigate counterparty risk. All of our longevity reinsurance agreements are unfunded, i.e. we retain the assets and pay a series of reinsurance premiums based on expected longevity and receive a series of reinsurance claim amounts based on actual experience. This allows us to hedge longevity risk whilst minimising counterparty risk exposure. We entered into additional longevity reinsurance agreements in 2023 and have now reinsured 87% of our longevity exposure **(APM)** (2022: 89%).

Rothesay's application to use a full internal model (FIM) was approved by the Prudential Regulation Authority (PRA) during 2023 so we are now using our own model to cover all risk components. The SCR coverage quoted above allows for adoption of the FIM.

In May 2023, we successfully raised a further £500m of Tier 2 debt in recognition of the new business opportunity we are seeing, further adding to our significant capital surplus.

In November 2022, HM Treasury announced the introduction of the new Solvency UK regime which is, in part, designed to facilitate increased investment in UK infrastructure, clean energy and other forms of productive finance. The first part of these reforms was implemented on 31 December 2023 and related to the Risk Margin, with all relevant 2023 numbers throughout this report reflecting these changes. We continue to engage thoughtfully on key issues with external stakeholders including the PRA, government and wider industry in order to help shape future reforms. We also participate in other relevant regulatory and government consultations, including responding to the government's consultation on residential leasehold ground rents that was published alongside the Leasehold and Freehold Reform Bill.

Our policyholders

Providing over 934,000 policyholders with a safe and secure pension is at the heart of what we do. We pride ourselves on the level of service we provide and I am glad to report that we maintained high service standards during the year, with over 94% (2022: 95%) of customers rating the quality of service received **(APM)** as good or excellent. Significant work has been undertaken to ensure that Rothesay is compliant with the new Consumer Duty regulations which came into effect on 31 July 2023.

In February 2023, the administration of the former Prudential policies transferred from Diligenta, Prudential's third party administrator, and I am pleased to say that a seamless transition was achieved through the hard work of all involved.

We were extremely disappointed that the personal data of around 50,000 of our policyholders was impacted by a cyber incident at Capita, one of our third party administrators, in May. All impacted individuals were contacted by Rothesay to reassure them that their pension policies and payments were unaffected and to provide them with guidance on what steps they should take to protect their data. They were also offered access to a specialist fraud monitoring service, free of charge.

We continue to develop our in-house policyholder administration offering which uses Rothesay's technology platform to supplement the services of our administration partners.

Our people

Our people are a key strength of Rothesay. During 2023, we continued to recruit, particularly in our US and Australian offices, as well as to support the continuing development of our technology platform.

As our headcount nears 500 permanent employees, we were pleased to take on the lease of two additional floors in our office in The Post Building. This extra space will allow colleagues to continue to collaborate easily across all parts of the business, supporting our cultural values of excellence in everything we do, innovation and teamwork.

Environmental, social and governance matters

At Rothesay, we see embedding sustainability principles across our business as a fundamental part of our commitment to providing our policyholders with security for the future. We are therefore obsessive in our focus on creating a positive impact through all of our operations and for all of our stakeholders, including our policyholders, our suppliers, our people, our community and our investors.

We are proud of the progress we have made this year and of the transparency with which we communicate our goals and the programmes of activity designed to deliver them.

Highlights of this progress include our new commitment to a 50% reduction in the carbon intensity of our publicly traded corporate debt portfolio by 2030, an upgrade of our ESG rating from MSCI to AA, our acceptance as a signatory to the Financial Reporting Council's UK Stewardship Code in February 2023 and our range of new employee benefits designed to foster an inclusive company culture which actively values difference.

For more information, please see both our 2022 Sustainability Report and Climate Report, the latter of which is aligned with the Task Force on Climate-related Financial Disclosures.

Charitable donations

In response to current global conflicts we are encouraging our people to make monetary donations to support relief efforts by matching donations on a 4-to-1 basis to the increased amount of up to £1,000.

Following last year's successful 'Summer Cheer' campaign where the Rothesay Foundation gave £2m worth of Iceland Foods vouchers to pensioners living in need, the Rothesay Foundation has now launched a pilot with Age UK under which pensioners were provided with a free, confidential benefits check to ensure that they are claiming all of the benefits to which they are entitled. Feedback from the pilot indicates that a total of more than 2,400 pensioners have been supported, both in person and through a dedicated line, including over 450 who were identified through the Summer Cheer campaign. On average, an Age UK benefits check identifies entitlement to an extra £5,000 benefits per person per annum.

We have also continued our relationship with the Alzheimer's Society in a number of ways: through sponsoring their annual conference, helping people living with dementia to complete lasting powers of attorney and matching donations to the charity.

Chief Executive's statement continued

Changes to Rothesay Management

After almost nine years as Chief Financial Officer (CFO), Andrew Stoker announced his intention to step down from the Board and as CFO with effect from 30 September 2023. I would like to thank Andrew for the huge contribution he has made to Rothesay over his time with us. He has supported the phenomenal growth of our business, providing expert and trusted counsel at every step of our journey. We wish him the very best for the future.

I am pleased to say that from 1 October 2023, Graham Butcher, Rothesay's previous Head of Strategy and Chief Underwriting Officer, joined the Board and took on the role of CFO.

After 13 years leading Rothesay's legal team, James Dickson decided to step down as General Counsel. James continues to support the business as a senior legal advisor along with his role as a trustee of the Rothesay Foundation. Following James' decision, we were pleased to welcome Lorna Tennent as our new General Counsel in January. Lorna knows our business incredibly well having supported us on a number of transactions over recent years while a Partner at global law firm Linklaters.

Following Jonathan Sarkar's decision to retire as our Chief Operating Officer (COO), David Cox was promoted as our new COO in September 2023 following a carefully planned succession process which began with David's previous appointment as our Deputy COO in 2022. I am also very pleased that Jonathan continues to support the business in a new part time role as a senior adviser to the firm so that we can continue to benefit from his over 35 years of experience in the UK pensions industry.

Looking forward

Improved pension scheme funding levels driven by the rising interest rates environment are making de-risking increasingly affordable for pension schemes, creating very positive conditions in the BPA market. Many sponsors are also considering the benefit of pension de-risking in the light of recent market conditions. This is generating exciting new business opportunities which we have converted extremely well over 2023, delivering one of our strongest ever performances.

With the market continuing to be very buoyant, we are fortunate in having two long-term, supportive shareholders and this, combined with our track record of executing large complex transactions and having a very robust financial position, means that we have been able to capitalise on the growth opportunities in our market while preparing for a potentially even busier time in the years ahead. This includes continuing to innovate within our market to respond to the evolving needs of our pension scheme clients, for instance through our new Board-approved Illiquid Asset Transition team which is supporting the increasing number of schemes coming to market with a greater exposure to illiquid assets.

I am confident as we look forward that Rothesay will continue to build on its significant growth over the past 16 years, delivering market-leading transactions while providing pension security and service excellence for our policyholders and long-term value to our shareholders.

Tom Pearce
Chief Executive Officer
9 February 2024

Our market

Providing pensions is Rothesay's sole purpose and we are fully committed to the UK bulk annuity market.

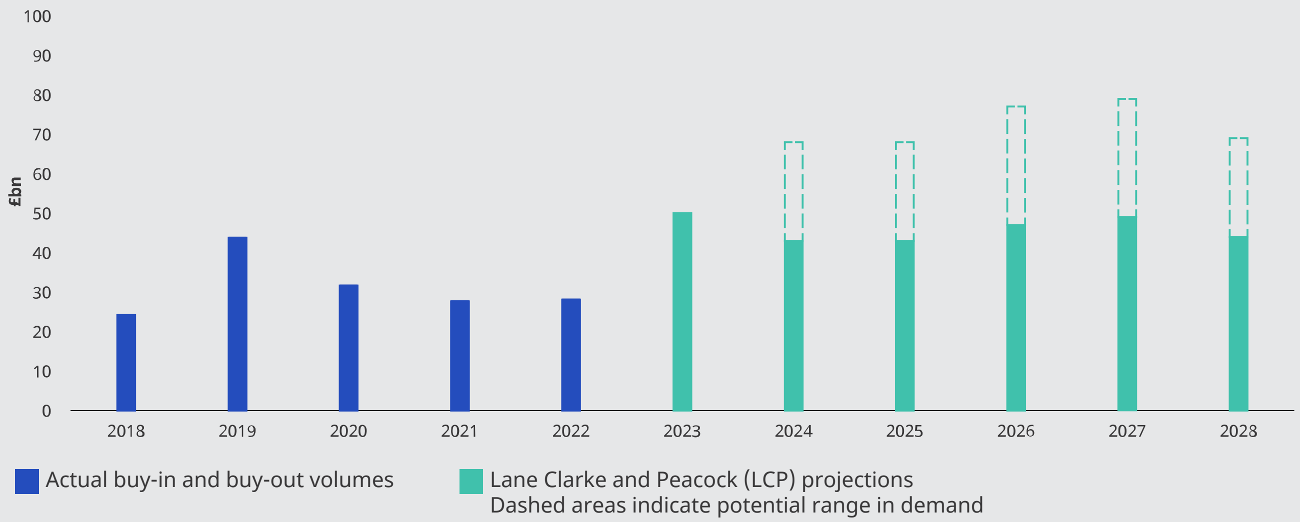
We have seen unprecedented growth in market volumes recently, with 2023 having been the biggest year yet in the history of the market.

Rothesay's core market is the UK pension scheme Bulk Purchase Annuity (BPA) market, which facilitates pension schemes de-risking uncertain asset and liability cashflows through securing a BPA policy with an insurer such as Rothesay.

These BPA may take the form of a "buy-in", where Rothesay makes annuity payments in bulk to the ceding pension scheme which then makes onward payment to its members, or a "buy-out" where the pension scheme members become direct policyholders of Rothesay.

Significant recent improvements in pension scheme solvency have meant that BPA policies have become increasingly affordable for pension schemes, and commentators forecast that this demand will not slow down any time soon. It is clear that buy-ins and buy-outs will continue to become an increasingly important de-risking tool for trustees and sponsors of UK defined benefit pension schemes.

Buy-in and buy-out volumes for the UK market over the next 5 years



Our market continued

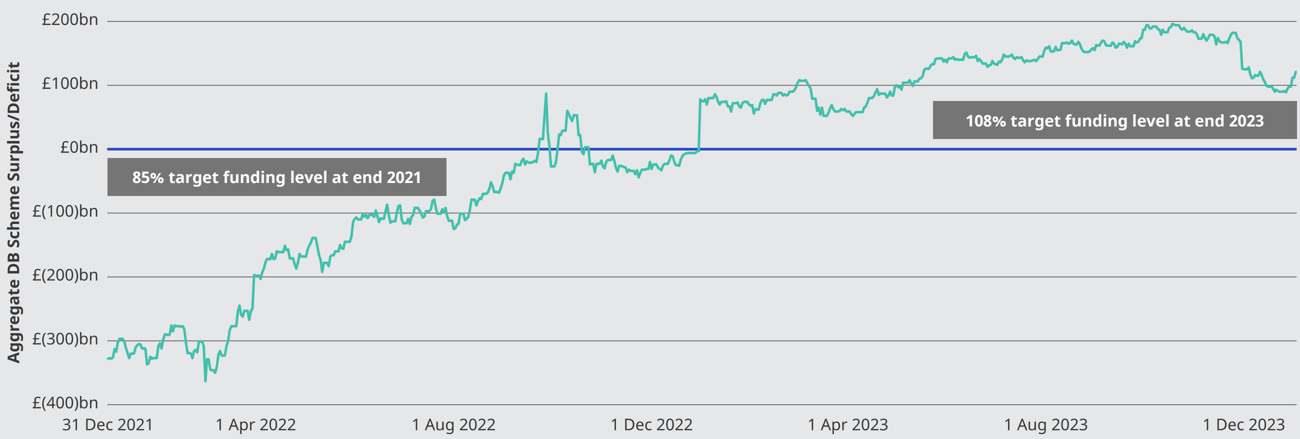
Pension schemes were already becoming increasingly well-funded with deficit recovery contributions being paid in by sponsors over recent years to meet funding targets, so insurers have been expecting a wave of demand for bulk annuities for some time.

However, a key catalyst for the recent spike in demand in this market has been the shift in interest rate environment, which has resulted in significant funding gains for many defined benefit schemes. For some schemes, this meant that they were left with a surplus after completing a bulk annuity transaction during 2023. We're also seeing sponsors accelerating contributions already committed in order to fund their scheme's de-risking, locking down the pension risks on their corporate balance sheet.

The market has needed to adapt to the requirements of schemes which have reached their funding targets earlier than anticipated:

- Full Scheme Solutions: Most bulk annuity transactions that took place in the market over 2023 involved deferred members, i.e., trustees and sponsors decided to secure the whole pension scheme in one go whilst it is affordable within the scheme's assets, in contrast to previous years where longer-term pensioner buy-ins were more prevalent. Ultimately, most schemes we complete transactions with will buy-out and scheme members will become policyholders of Rothesay.
- Accommodating Scheme Asset Holdings: Many such schemes have found that whilst they can afford a bulk annuity transaction within their asset value, some of their investments are illiquid in nature and often do not achieve full value when sold on the secondary market. These illiquid assets can prove challenging to pass to an insurer as part of premium payment. The ability for insurers to provide solutions in respect of illiquid investments has become increasingly important to enable schemes with these assets to transact in full and take advantage of their improved funding position. Deferred premium structures can also provide an alternative solution to allow pension funds to lock in their funding position and manage the sale of their illiquid assets over a longer period, should they choose. Harnessing the expertise of Rothesay's in-house asset management team, we have been able to offer and provide highly bespoke solutions to schemes with illiquid assets.

The UK market DB scheme funding levels



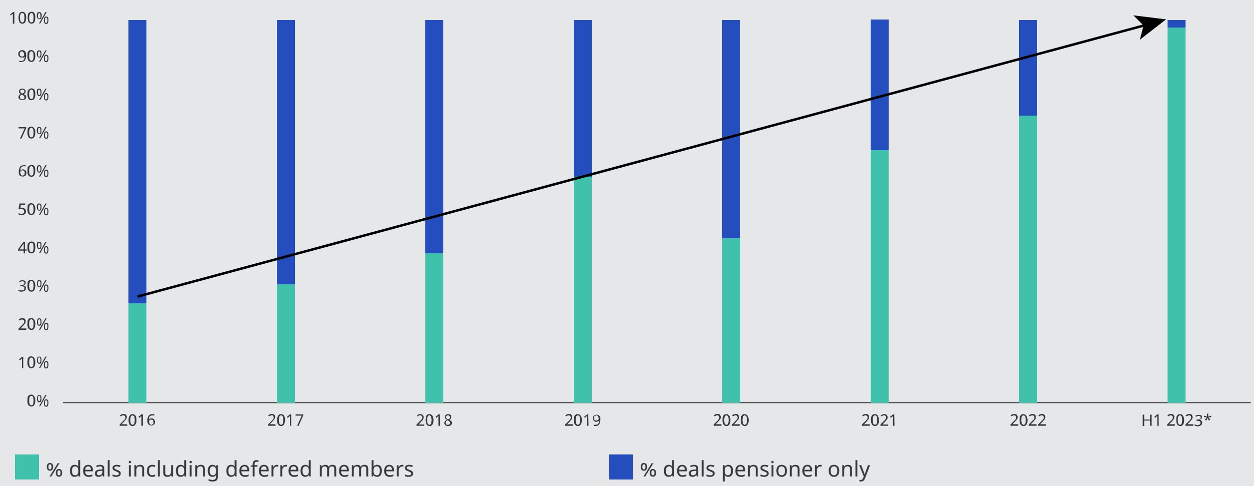
Source: XPS DB:UK Funding tracker

— Surplus or Deficit — Funding target

- "Jumbo" Transactions: We are also seeing larger pension schemes coming to market for a single transaction, where trustees previously considered their schemes too big to fully insure in one go. Rothesay has a particular interest in these transactions. Transaction size is rarely a constraint for us – we are able to execute large, full scheme solutions and we are well placed to cope with the complexities that these larger transactions often bring.
- Tailored Risk Cover: With many more schemes approaching the market with a surplus funding position, trustees are often requesting residual risk cover for their schemes as a use of this surplus. We have worked with our clients to tailor solutions to the desired level of risk coverage, and increasingly we are seeing significant attention paid to data cleansing requirements.
- Asset Transition: With such volatile market conditions experienced over the last year, it has become of the utmost importance for schemes to lock in their insurance pricing by linking the premium closely to the scheme's assets during the transaction execution process, locking down market and investment risk in the run up to premium payment. We have seen asset transition requirements become a key feature of bulk annuity transactions over the last year, and insurers' ability to take on a scheme's assets as part of a transaction is critical. At Rothesay, we have set up an in-house asset transition team which is responsible for this part of the process, focusing on the transfer process for liquid assets and derivatives, as well as illiquid investments.

This increased demand from pension schemes has led to higher numbers of bulk annuity transactions in the market, as well as larger transaction sizes. Insurers continue to have a strong appetite to win new business and pricing continues to remain competitive which, when combined with improvements in pension scheme funding levels, means that BPA pricing is highly affordable for pension schemes. We expect the market to remain buoyant for the foreseeable future.

UK market proportion of transactions including deferred members by year



Source: Insurance company data. *H1 2023 also includes publicly disclosed deals to 6 October 2023.

Our business model

Securing the future for our policyholders.

1

Underwriting and execution

We provide execution certainty for trustees and pension scheme members through our meticulous underwriting and due diligence.

At the start of a pension de-risking transaction, we model the benefits of every single policyholder and project them to maturity. Using our purpose-built systems, we are able to measure, monitor and manage the risks associated with the annuity liabilities throughout the transaction lifecycle.

We scrutinise all new business opportunities to ensure we minimise the risks to which we are exposed, whilst achieving appropriate risk-adjusted returns for our investors.

We are committed to offering pricing and execution certainty to scheme trustees during the transaction process through a transparent pricing mechanism and are able to tailor the level of risk cover to meet the individual requirements of each situation.

2

Deliver the pension benefits

We have strategic partnerships with well-established pension administrators: WTW, Mercer (transferred to Aptia UK Limited from 1 January 2024), and Capita Pension Solutions, as well as an expanding in-house administration platform. We use our own record of all member benefits and future payments to ensure a data transition to our administration partners that is seamless to our new policyholders. High levels of automation and sophisticated technology ensures that our partners are fully integrated with our own systems in order to eliminate discrepancies and deliver excellent customer service. Our in-house administration solution draws on our own technology platform to further streamline the administration process and improve the customer experience, and is a growing feature of our offering.

We welcome new policyholders by giving them peace of mind that a Rothesay annuity provides them with the highest level of security, and we work closely with the trustees of the pension scheme to ensure absolute continuity of benefits from those previously provided by the pension scheme.

We are focused on comprehensive, responsive, and efficient policyholder service during the transition and beyond. We are proud that 94% of our policyholders rate our service as ‘good’ or ‘excellent’.

3

Transition and invest the assets

At the point of execution, premium payment for the bulk annuity is typically satisfied via in-specie transfer of the existing assets of the pension fund. These assets commonly consist of government and corporate bonds that broadly match the profile of the liabilities being transferred and, as is increasingly typical of recent transactions, can also comprise certain illiquid assets held by the pension fund. Following receipt of these assets, we would carefully transition out of those assets that do not form part of our long-term strategy, and into our target allocation. We seek to ultimately invest in assets which match our liability cash flows and liquidity requirements, meet our environmental, social and governance objectives and provide an appropriate risk-adjusted return.

Our portfolio is focused on highly-rated assets and is split in the following approximately equally weighted categories:

1. **Cash and government bonds**
2. **Corporate bonds and other infrastructure**
3. **Secure, illiquid assets.**

We can safely capture the illiquidity premium of long-dated assets because of the long-dated nature of our pension liabilities. We own a large portion of cash and liquid bonds to ensure that we retain substantial liquidity buffers to fulfil collateral calls and meet all contractual cash flows as they fall due.

4

Long-term risk management

Meticulous risk management is one of the key foundations of Rothesay's success and is a focus throughout the transaction lifecycle. Our technology platform allows us to monitor our risks and report our key financial metrics to stakeholders on a daily basis. This includes being able to monitor in a bespoke way the prospective impact of potential future activities or scenarios on those risks and financial metrics so that we are aware in advance of the precise impact, and able to react to this where needed.

These risks are monitored and managed in accordance with defined risk appetites, and close coordination of underwriting, reinsurance, investment and risk hedging functions ensures risk management is central to all aspects of the business.

Our risk management capabilities allow us to do what we do best: securing the pensions of our policyholders.

Our business model **continued**

Why we are successful

Rothesay is a purpose-built specialist business, with a unique culture and set of capabilities that continue to drive our growth and market leadership.

Purpose-built

We were founded with a single purpose: to provide the best platform for securing UK pensions at scale.

We are designed from the ground up with modern systems, processes and capabilities to protect and deliver pensions effectively and with the greatest level of security.

Financial strength

We focus on maintaining a robust level of surplus solvency capital to offer an exceptional level of security for our policyholders and to provide the capital we need to continue to grow the business. We rigorously analyse and quantify every risk and monitor these risks alongside all of our key financial metrics on a daily basis using our purpose-built systems.

Careful investment

Our investment philosophy has been designed to match the nature of the liabilities we take on, and is based on making stable, low risk long-term investments with predictable cashflows. Our approach to investment is patient and measured given the long-term nature of the business we are in, and we continually analyse potential risks associated with those investments, including all relevant ESG considerations.

Unique integration

Most of our core operations are in-house and based in a single location, which allows our teams to collaborate effectively with one another. We have teams of experts across a range of disciplines who think diversely but act as one, enabling us to act nimbly and deliver the best solutions for our clients.

Sophisticated technology

Our industry-leading, purpose-built technology platform underpins the whole business, so that our decision-making is fully informed and we can adapt in real time to market changes. These systems are fully integrated, with all assets and liabilities of the business risk managed daily on the same platform.

Our engineers drive the evolution of our technology so that it develops with the business.

Original thinking

We continuously bring creative and innovative ways of delivering for our clients and develop bespoke solutions for every pension scheme.

We pride ourselves on working collaboratively with our clients to find the best possible solution for them, and have a strong track record of delivering on these solutions.

Service excellence

We support clients through every step of the process and leave no stone unturned from initial proposal to buy-in to buy-out. And once policies are issued, we provide excellent customer service.

Our straightforward and collaborative approach helps us build clarity and trust in every interaction.

Rothesay culture

We always seek to do better in all aspects of our business: providing the best outcomes for our clients, managing existing and emerging risks to deliver the greatest level of security for our policyholders, continually developing technology to keep pace with the business, and providing an excellent level of policyholder service. Importantly, we will always do the right thing for the benefit of all of our stakeholders.

Our pursuit of excellence enables us to maintain our market leadership.

Business model in action

1 2 Link to Business model

Case study

The Co-operative Pension Scheme

In late 2021, The Co-operative Pension Scheme (the "Scheme") ran a competitive tender process to identify an insurer to partner with over a multi-year journey to secure all £7bn of the remaining uninsured liabilities of the Co-op Section of the Scheme.

In March 2022, following a competitive tender process, a Joint Working Group ("JWG") of the Scheme's Trustee and Sponsor entered into exclusivity with Rothesay as the first step on this journey.

Working with their advisers from Aon and Linklaters, the JWG established a Project Board who worked with Rothesay to plan the various steps required to secure all remaining uninsured liabilities of the Co-op Section of the Scheme. The JWG set out to also secure "residual risk" cover relating to the Scheme's liabilities, which passes data and benefit risk on to Rothesay as part of the insurance contract. The first step in this process was to populate a data room and arrange facilities for operational due diligence to take place, ahead of a proposed first tranche of insurance of circa £1.5bn to be secured in October 2022.

Price Lock Mechanism

From exclusivity, Rothesay was able to provide pricing certainty to the JWG through a "price-lock" mechanism by defining the insurance premium as a portfolio of the Co-op Section's assets plus a balancing portfolio of cash and gilts. This meant that the Scheme could satisfy payment of the insurance premium by simply transferring this portfolio of assets to Rothesay when ready, which helped mitigate the economic risk of the associated assets and liabilities over the execution period.

In parallel with planning for securing the Co-op Section, the Trustee decided to seek pricing for a separate section of the Scheme, the Bank Section. Rothesay's pricing for this section was also deemed attractive and again, the quoted insurance premium was converted to a portfolio of the Bank Section's assets. The partnership arrangement now covered more than £8bn of total Scheme liabilities.

Residual Risk Due Diligence

In the summer of 2022, 31 employees across Rothesay's pricing, in-force, transitions and business development teams were involved in 8 weeks of extensive on-site due diligence. Over this period, the records of nearly 3,000 current and former members were reviewed in detail as Rothesay worked closely with advisers and the Scheme's large and experienced in-house pensions administration team.

When the JWG first agreed to work with Rothesay we did so recognising that to deliver our risk transfer project successfully, delivering further benefit security to our members, we needed the relationship to be a genuine partnership. Rothesay also understood this and demonstrated those behaviours from the start. All long-term complex transactions have bumps along the road but Rothesay and the JWG were able to work openly and constructively to overcome these. Indeed, there are few larger bumps than those arising from the 2022 "mini budget" but the partnership with Rothesay allowed us to co-create innovative solutions and to successfully navigate even these obstacles.

"Partnership" is a slightly over used word in our industry, but it genuinely fits for how Rothesay worked with us.

Chris Martin
Executive Chair – Independent Governance Group

Business model in action continued

1 2 Link to Business model

> One of Rothesay's main strengths is their problem solving – coming up with ideas for a complex asset transition that reduced risk and met our objectives (for example, where we held illiquid and harder to price assets, or hedging instruments). Rothesay also have strength in the depth in their team, and in both transactions Co-op Pension Scheme has done with Rothesay, the transition (of large numbers of holdings) has been well managed and straightforward, with Rothesay partnering well with our custodian and advisors.

James Giles
Head of Pensions Investment and Risk – Co-op

Residual Risk Due Diligence (continued)

The Scheme itself is an amalgamation of more than 40 former and acquired schemes, each with their own history that in some cases stretches back almost 100 years. This long and complex history gave rise to a data room containing over 2,800 legal files that were considered as part of our data, benefit and legal review of the benefits due to the more than 70,000 members who are currently receiving or entitled to receive benefits from the Scheme. Under the terms of the exclusivity agreement, Rothesay had also offered to provide residual risk cover against liabilities already secured in previous transactions with two other UK BPA providers.

The original transaction timeline had envisaged an initial tranche executing in October 2022, which coincided with the market turbulence associated with the UK Liability Driven Investment (LDI) crisis. Whilst the price certainty offered by our price-lock mechanism would have allowed the initial tranche to be executed as planned, the JWG determined that it would be prudent to pause in order to ensure that all of the remaining liabilities of the Scheme could still be secured safely following execution of the initial tranche.

The key consideration was around the illiquid asset holdings that the Scheme had planned to sell or run-off over time whilst securing the remaining liabilities in tranches. Without certainty around the ultimate realisation value of those investments, it was difficult for the JWG to guarantee that all liabilities of the Scheme could be safely secured under the staged approach initially proposed.

It became clear that a transaction in stages was not going to be the optimal solution, and that the only way to safely start on this journey of securing all of the Scheme's liabilities was for Rothesay to provide certainty regarding the Co-op Section's illiquid assets as well as all of the remaining liabilities of the Scheme.

Bank Section

In the short term, attention quickly turned to the Bank Section of the Scheme, which did not have any material exposure to illiquid assets. The price-lock, which had been offered in the summer of 2022, was maintained throughout the LDI crisis and, in early December 2022, all the remaining uninsured liabilities of the Bank Section were secured with Rothesay. Additionally, a legal agreement was entered into for Rothesay to provide residual risk cover against the liabilities previously insured elsewhere with another BPA provider.

Illiquid Assets

Exclusivity for the Co-op Section was extended at the end of 2022 and, at the request of the JWG, Rothesay provided a proposal for this section which incorporated the Co-op Section's illiquid assets in a single transaction covering all of the Co-op Section's remaining liabilities. These illiquid assets, representing circa £1bn of the Co-op Section's assets, had originally been out of scope for the proposed staged approach to the transaction, so a new due diligence exercise was commenced by Rothesay to underwrite a number of properties, Asset Backed Security (ABS) funds and other fund holdings including Private Equity.

Execution

In the summer of 2023, having provided a proposal which met the objectives of the JWG, Rothesay began execution of a transaction for the entire Co-op Section. Working with Aon, Linklaters and Mercer as the investment consultant, Rothesay and the JWG partnered to effectively coordinate the sale of a number of the illiquid asset holdings of the Scheme, with the sale proceeds being ultimately underwritten by Rothesay.

With this process well underway, the job of transferring property and other assets could begin as the transaction reached execution in the final quarter of 2023. Ultimately, various investment funds and multiple property investments were transferred to Rothesay alongside a portfolio of corporate bonds and gilts that were owned by the Scheme. Rothesay worked collaboratively with the JWG and its advisers to ensure the smooth transfer of the Scheme's existing asset holdings, avoiding the need for a significant portfolio transition in advance of the transaction.

Outcome

The efforts and cooperation of Rothesay, the Trustee, the Sponsor and their advisers resulted in completion of the buy-in for the Co-op Section by the end of 2023. All parties worked together collaboratively and productively over an extended period of time in order to achieve the best outcome for the JWG. Rothesay was able to evolve and adapt its offering to the changing conditions and tailored the transaction structure to best meet the needs of the client.

> Designing insurance for this scheme required a highly bespoke solution, given its size, benefit structure complexity and evolved asset strategy. Rothesay worked tirelessly and collaboratively with the project team to identify potential pitfalls and develop solutions to meet the Scheme's needs. It was ultimately this collaboration and innovation which made the deal possible

Martin Bird
Senior Partner – Aon

Our investments

Continuing to invest in assets in line with our long-term investment strategy

Rothesay's £61.0bn asset portfolio is managed by our in-house team. Assets are sought which match our long term liability cash flows and which provide an appropriate risk-adjusted return, with cautious cash buffers retained in order to meet our liquidity requirements. Rothesay has a careful approach to investment which seeks to reduce exposure to unrewarded risks and provide real security for people's pensions in the future, whilst ensuring suitable and predictable overall returns.

Our sophisticated systems enable us to continuously monitor our risks and adapt to changing market conditions to make sure that we are able to quickly identify, quantify and react to any emerging risks or opportunities within our portfolio.

Rothesay continued to invest its assets in a measured way over 2023 and we go into 2024 with a balance of uninvested assets from new liability transactions that will be invested patiently over 2024 in line with our asset strategy.

The in-house team considers financially material environmental, social and governance (ESG) factors in both a quantitative analytical way as well as qualitatively, and these factors are formally documented in all committee approval papers for new investments in order to ensure that appropriate account is taken of them.

We are aligning our investment portfolio with the goal of the Paris Agreement to limit global warming to 1.5°C above pre-industrial levels and are committed to supporting a low carbon economy in which the UK achieves carbon neutrality by 2050. For information on responsible investment see pages 62 to 71.

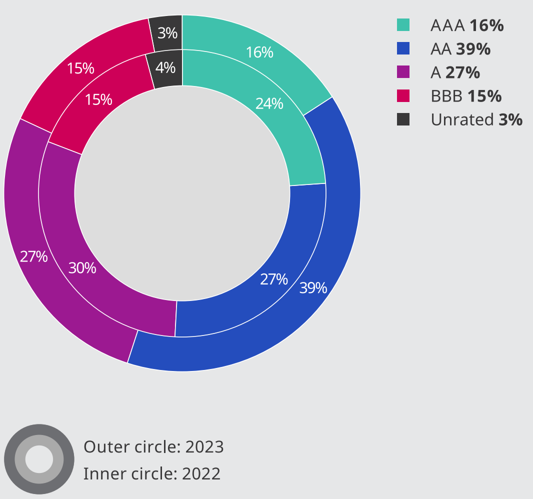
Rothesay's investment portfolio is focused on highly rated assets with over half of our rated assets having a rating of AAA or AA. This can be seen in the chart below.

The portfolio can be divided into three broad categories:

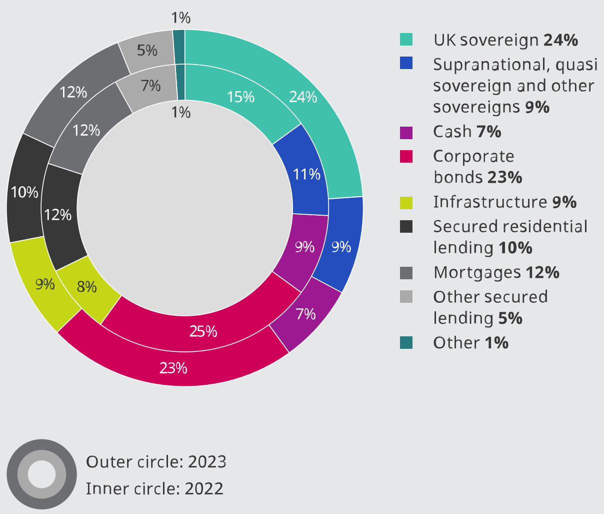
- **Cash and Government bonds** – This part of the portfolio is available for future investment and to meet collateral calls and cash requirements and backs some of our very long-dated cash flows.
- **Corporate bonds and infrastructure** – We invest in a diversified portfolio of highly-rated corporate bonds, including regulated infrastructure such as water, energy and transportation.
- **Secure, illiquid assets** – These assets include loans secured against property, residential mortgages, including lifetime mortgages and loans secured against other types of collateral. They are attractive because investors are rewarded for illiquidity rather than credit risk. Structural features such as collateral, covenants and other security features mean that recoveries in the event of default are maximised and credit risk minimised.

The following charts provide a breakdown of our investment portfolio at 31 December 2023 and 31 December 2022 by asset class.

Investment by rating (%)



Our investments (%)



Corporate bonds and infrastructure

Our corporate bond and infrastructure holdings continue to be weighted towards liquid and highly-rated bonds. We remain focused on investing in high-quality names and diversifying across sectors, currencies and jurisdictions. Our exposures to different industry sectors within the corporate bond and infrastructure portfolio are set out in the charts below, as a percentage of our total investments.

Of our £20.7bn holding of corporate bonds and infrastructure, around 38% (2022: 33%) (or 12% of total assets) is rated BBB and of those only £0.2bn is rated BBB- (2022: £0.2bn). The vast majority of the remainder are rated A or above. As at 31 December 2023, Rothesay holds only £42m of sub-investment grade bonds (2022: £11m).

Real estate lending

Rothesay achieved strong origination volumes of £745m for lifetime mortgages in 2023 (please see note D.1 for further details) which was a 55% reduction compared to 2022 but consistent with the overall reduction in the size of the new origination market in 2023. As at 31 December 2023, the value of our lifetime mortgage portfolio is £6.2bn (2022: £5.1bn). We apply a cautious approach when underwriting mortgages, with newly originated lifetime mortgages having an average loan-to-value ratio of 26% (2022: 34%). Lifetime mortgages now represent 10.2% of assets under management (2022: 10.8%).

We also continue to fund long-term, fixed rate mortgages in both the UK and the Netherlands. In July 2023 we purchased a €740m portfolio of Dutch residential mortgages which increased our long-term, fixed rate mortgage portfolio to £1.7bn (2022: £1.1bn).

Rothesay's commercial real estate lending exposure is primarily through senior debt financing of landmark property assets with highly-rated tenants and owners, and low loan-to-value ratios. The average loan to value ratio on our commercial real estate debt is around 53% (2022: 54%). Our largest commercial real estate loan, secured on a London office, was repaid in January 2024.

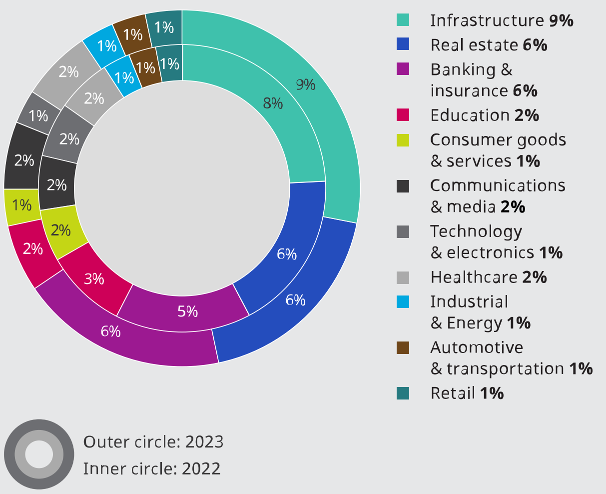
Rothesay also invests in certain assets that are secured on long-dated cashflows derived from residential freehold properties. During the year, the government has introduced the Leasehold and Freehold Reform Bill alongside a consultation on potential restrictions to the level of residential ground rents required to be payable by leaseholders. If the Bill is amended to include a form of a ground rent restriction, this could impact some of these investments. The Bill is currently going through Parliament with the final form of the Bill and outcome of any legislation being uncertain. The valuation of these assets has been updated to reflect the increased uncertainty, with this adjustment informed by scenario analysis based upon our ongoing discussions with the government, legal experts and other market participants. Please see note D.1 for further information.

International diversification

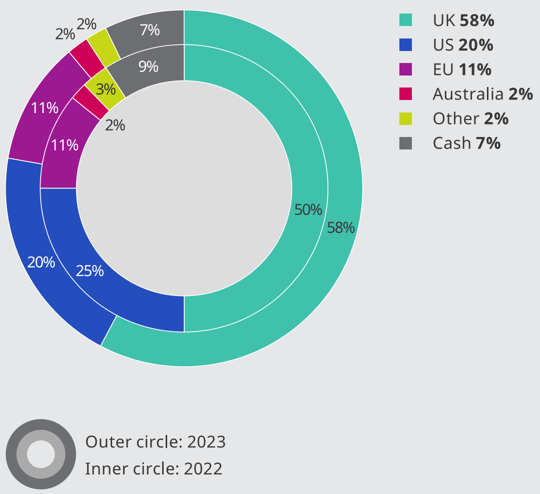
Geographic diversification continues to be a key part of Rothesay's risk management, and with our well-established and growing operations Rothesay Asset Management North America and Rothesay Asset Management Australia, we have been able to source assets in which to invest in a range of countries and currencies, while maintaining rigorous risk management.

The chart below provides a breakdown of our investment portfolio at 31 December 2023 by country of exposure.

Investment sectors (%)



International diversification (%)



Our strategy and KPIs

Financial security

SCR coverage (APM)

Indicates capital strength through comparing how the Group is capitalised relative to the regulatory requirement

Assets under management (APM)

Measures business size to indicate scale of business and ability to diversify risks

External ratings

Impartial indicators of RLP's Financial Strength

2023

A2 — **Moody's Investors Service**

A+ — **Fitch Ratings**

2022

A2 — **Moody's Investors Service**

A+ — **Fitch Ratings**

2023 progress:

- Solvency capital position improved over the year after taking into account the capital strain associated with writing £12.7bn of new business. Surplus capital of £5.4bn (2022: £4.9bn) means that we are well-placed for future growth opportunities.
- Following the annual review of RLP's financial strength by the credit rating agencies, Fitch and Moody's reaffirmed our ratings.
- Assets under management have increased to £61.0bn (2022: £47.0bn) predominantly driven by the receipt of new business premiums.
- Reinsured £10.1bn of liabilities via unfunded longevity swap transactions, giving effective reinsurance coverage of 87% (2022: £2.1bn to give 89% coverage). We have not transacted any funded reinsurance.
- Received approval for Full Internal Model (FIM).

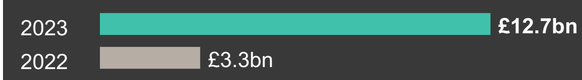
Opportunities in 2024 and beyond:

- Continue to maintain a robust solvency position through meticulous risk management. This provides the greatest level of security for our policyholders and capital for future growth.
- Continue to monitor and maintain significant liquidity buffers in order to mitigate liquidity risks in times of market stress.

Steady growth

New business premiums (APM)

Signals the Group's growth

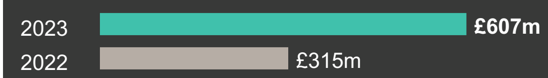


MCEV

Indicates the risk-adjusted value of the business **(APM)**

MCEV new business profit

Indicates the value generated by new business **(APM).** 2022 has been restated to reflect the removal of expenses which have now been shown separately on p35.



2023 progress:

- In 2023, we de-risked the liabilities of 12 pension schemes, which generated £12.7bn of new business (2022: £3.3bn).
- This new business activity helped our MCEV to grow from £6.4bn **(APM)** to £7.5bn over 2023.
- Grew the Rothesay team by 64 talented individuals across the Group, including at Rothesay Asset Management North America and Rothesay Asset Management Australia.

Opportunities in 2024 and beyond:

- Continue to assist pension schemes to de-risk through new pension risk transfer transactions. Given the strength of the pipeline, we anticipate significant new business opportunities in 2024 and beyond.
- Continued investment of assets received from new business transactions into Rothesay's long term investment strategy.
- Continued innovation to ensure that we provide the best solutions for our clients and partners, for example through continued growth of our in-house asset transition team.

Service excellence

Service quality (APM)

Measures the number of policyholders who rate our service 'good' or 'excellent'

Complaints (APM)

Measures satisfaction through number of complaints upheld per 1,000 customers

2023 progress:

- Diligent oversight of our Third Party Administrators (TPAs) by our own in-house team has ensured that policyholder service standards have remained extremely high.
- Continued focus on service excellence for our customers.
- Implemented plans to ensure Rothesay complies with the new Consumer Duty.
- Continued to roll out our online service to our policyholders.
- Awarded the Impact on Customer Experience Award at the Pensions Management Institute Pinnacle Awards.

Opportunities in 2024 and beyond:

- Continue to excel in customer service.
- Continue to migrate some existing pensioner buy-ins to the new in-house model and build on our in-house capabilities so that we can leverage our risk management systems to improve accuracy and efficiency.
- Continue to comply and focus on the Consumer Duty to ensure good outcomes for all policyholders.

Performance across measures

IFRS profit before tax

Measures profitability, by capturing all recurring and non-recurring items

Employee engagement rate

Measures the number of employees who responded to the annual employee survey

Carbon intensity

Measures carbon intensity of Rothesay's investment portfolio

2023: CO_2e/million USD borrower revenue
2022: CO_2e/million USD

2023 progress:

- Adjusted operating profits of £1,358m (2022: £579m) driven by profit on new business in addition to release of margins as the business runs off. Operating profits were reduced by the net increase in the CSM **(APM)** on new business, as well as borrowing costs, to arrive at IFRS profit before tax of £906m (2022 loss of £1,054).
- Maintained market-leading levels of employee engagement.
- Published our annual climate and sustainability report setting out detailed carbon intensity data and showing a 13% reduction to our base year in the carbon intensity (CI) of our overall portfolio.
- New commitment to a 50% reduction by 2030 in the CI of the publicly listed corporate debt portfolio.
- Acceptance as a signatory to the Financial Reporting Council's UK Stewardship Code in February 2023.

Opportunities in 2024 and beyond:

- Maintain high level of employee engagement and unique Rothesay culture whilst continuing to grow the business.
- Continue to make progress towards our environmental targets, net zero transition planning and early consideration of nature-related impacts.

How our financial KPIs are connected

Assets

We invest in highly rated and long-dated fixed income investments to back our insurance liabilities.

These investments are sensitive to market movements such as changes in interest rates and inflation, and changes in their valuations are designed to largely mirror the moves in the liabilities that they are backing. This is known as Asset-Liability Matching (ALM).

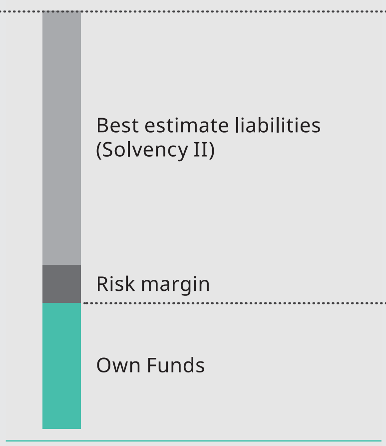
In addition, we hold significant surplus assets to support our Solvency Capital Requirement (SCR) plus associated buffer. These assets are primarily low-risk, liquid assets such as cash and government bonds that can also be used to meet our prudent liquidity buffers.

These surplus assets also form an important part of our overall market risk hedging strategy, which is designed to balance the needs of our different KPIs.

Our assets fall into three broad categories: cash and government bonds, corporate bonds, and secured illiquid assets.

Charts are illustrative and not to scale

Own Funds



The solvency balance sheet consists of Solvency II Own Funds that are available to meet the SCR, and the SCR itself.

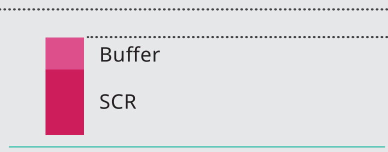
Own Funds are the total eligible assets of the Group less the Solvency II best estimate liabilities and risk margin (which is a buffer for risks which are deemed to be non-hedgeable, such as longevity risk). Own Funds include eligible subordinated debt.

The Solvency II best estimate liabilities (BEL) is the present value of liabilities projected to be payable to policyholders, including expenses related to those liabilities, over the life of the business. The BEL in the Own Funds calculation is similar in nature to the BEL calculated in MCEV and IFRS 17, with the key difference being the discount rate methodology which differs under Solvency II.

Own Funds are affected by market movements, as well as activity such as new business transactions and asset investment. Whilst the assets backing the best estimate liabilities and the liabilities themselves move together when interest rates and inflation change, the surplus assets (the Own Funds) also have some sensitivity to interest rates and inflation.

This is by design as the SCR itself is sensitive to interest rates and inflation due to its long duration.

Solvency Capital Requirement (SCR)



The SCR represents a modelled 1-in-200 years loss event and incorporates insurance, market, credit and operational risks. The SCR coverage ratio is the ratio of Own Funds to the SCR.

Rothesay holds a significant buffer above the SCR in order to deliver a high degree of security for its policyholders and to provide capital for writing future new business.

The SCR is influenced by activity such as writing new business or the choice of asset investments, where the size of the SCR is calibrated to reflect the degree of underlying risk.

Market conditions also impact the SCR, for example falling interest rates increase the size of the SCR. We aim to ensure that we invest our surplus assets in such a manner that our Own Funds increase in this scenario to compensate for the higher SCR. This must be done in a way that balances the needs of the solvency balance sheet as well as our other KPIs.

Surplus above SCR buffer

Own Funds that are not needed to cover the SCR or the buffer are considered surplus above the SCR buffer.

Typically, the premiums Rothesay receives in relation to new business do not cover the SCR plus buffer in addition to the best estimate liabilities and the risk margin. This means writing new business consumes surplus above the SCR buffer.

Our surplus above the SCR buffer therefore represents our capacity to write new business before requiring additional capital from our shareholders, as well as the potential capacity of the Company to pay dividends if desired.

Rothesay measures the attractiveness of new business and management actions by comparing various metrics, including how the MCEV or CSM generated compares with the amount of surplus above the SCR buffer invested.

Market Consistent Embedded Value (MCEV)

Market Consistent Embedded Value (MCEV) is a useful measure of the risk-adjusted value of Rothesay's long-term business. It represents the present value of the risk-adjusted surplus cash flows expected to emerge from the business over time.

Simplistically, it is the difference between the total assets of the business (net of all debts), and the best estimate of the future liabilities payable. This amount is then adjusted for the cost of the solvency capital (CoC) required to be held over the life of the business, as well as an allowance for the Cost of Non-Hedgeable Risks (CNHR).

MCEV is expected to increase as we write new business, and the amount by which it increases is an important measure of our new business performance.

MCEV is also sensitive to markets movements. If interest rates fall, MCEV increases because of the way we choose to invest our surplus assets to protect against SCR increases in that scenario. The needs of solvency and MCEV measures are carefully balanced as we aim to design our hedging strategy such that changes in surplus above buffer are compensated for by appropriate opposing changes in MCEV.

IFRS 17

The IFRS 17 balance sheet shares some features with MCEV, for example they have materially the same underlying best estimate liability calculations.

IFRS equity is equal to assets less best estimate liabilities, risk adjustment (RA), contractual service margin (CSM), and debt. The RA is an adjustment for uncertainty around the amount and timing of the cash flows for non-financial risks, and the CSM represents a store of future value that is expected to be realised over the life of the business.

Adjusted Equity is a useful measure of the long-term value of Rothesay's business and is equal to IFRS Equity (net of any Restricted Tier 1 debt included in IFRS equity) plus the post-tax CSM.

Under IFRS, profits on new business are largely held back in the CSM and would be expected to increase IFRS equity through time as the CSM gets released. Adjusted Equity gives an indication of the long-term value that is expected to emerge from the business.

The market risk dynamics between adjusted IFRS equity and MCEV are broadly comparable.

Q&A
with the CFO, Graham Butcher

Q.

You joined Rothesay shortly after it was founded and have been one of the longest serving members of the management team. Throughout this time, what has set Rothesay apart from other businesses?

A.

The key differentiators for me are our people and, related to that, a culture of meticulous risk management which is supported by systems that have been grown and developed specifically for this business.

From the very start, we have always strived to hire the best people in each of their individual fields and to bring them all together in a collaborative and innovative environment. We thrive on solving problems to meet the needs of our clients, and this involves bringing people together from all parts of the business to work with one another and with our clients and partners to deliver the best possible solutions. As we continue to grow, it's incredibly important to us to maintain this unique culture which is why we're so pleased that we've been able to take on two additional floors in our office in The Post Building. This extra space will allow us to continue to collaborate easily across all parts of the business as our headcount nears 500 permanent employees.

Our systems infrastructure has grown with the Company too and is entirely bespoke to the nature of our business. It allows us to monitor all our key financial metrics on a daily basis, as well as providing real time risk reporting and liquidity management so that we can react quickly to changes in circumstances and markets.

This provides the highest possible level of security to our policyholders and enables us to deliver precise and timely reporting to all our stakeholders.

I'm very proud to have been part of Rothesay's growth over the last 16 years and it's a privilege to have taken on the CFO role at such an exciting stage in the development of the Company.

Q.

As Rothesay's CFO, what are your key areas of focus?

A.

We have an incredibly exciting opportunity in front of us in our market, with the unprecedented funding levels of UK pension schemes providing their trustees with the ability to now affordably de-risk their schemes. Our management team, Board and shareholders have ambitious plans for Rothesay's continued long-term growth and we are committed to offering very significant capacity to help trustees de-risk their pension schemes over the next few years. This is exactly what Rothesay was set up to do, so going into 2024 with significant surplus solvency capital as well as the continued support of our two fantastic long-term shareholders, GIC and MassMutual, positions us perfectly to be able to execute on this business plan – this will be a key area of focus for me.

As with everything we do, it will be done in a careful and considered way and we will make sure that all of the things that have made Rothesay so successful in the past will be carried forward into this next phase in our growth.

Good results and substantial capital mean that we are well positioned for growth opportunities.

Graham Butcher
Chief Financial Officer

Q.

What are your successes you reflect on from 2023?

A.

On the new business side, providing full-scheme de-risking solutions to trustees is what we do best, and this requires us to bring people together from across the business, from the liability pricing and business development teams to our newly-established Illiquid Asset Transition team, all the way through to our policyholder engagement teams. Successfully executing four large and complicated full-scheme transactions in a short space of time in the final quarter of 2023 required close coordination across all areas of the Company to complete all on schedule and with precision. This was truly Rothesay at its very best.

Elsewhere, I'm incredibly proud of the delivery in 2023 of our Full Internal Model and the transition to our new accounting standard, IFRS 17, which again both required substantial amounts of work and coordination across many different areas of the business. The projects have been a great success and we have been able to seamlessly incorporate these new measures into our daily reporting and risk management processes.

Q.

Where do you see the business in three years' time?

A.

Rothesay is ideally placed to deliver on the pipeline of business anticipated over the next few years, and it's our ambition to continue to grow the business as the UK's leading specialist pensions insurer. We are set up to effectively execute the largest, most complicated transactions in the market and we expect this, coupled with our significant surplus capital and shareholder support, to allow us to grow our assets under management to over £100bn over the next few years.

"Today we manage over £61bn in assets, secure the pensions of over 934,000 people, and pay out, on average, over £200m in pension payments each month."

Graham Butcher
Chief Financial Officer

Financial review

The financial review describes the financial performance of Rothesay Limited and its subsidiaries.

IFRS financial performance

From 1 January 2023, Rothesay is applying IFRS 17, the accounting standard for insurance contracts, and IFRS 9, the accounting standard for financial instruments. IFRS 17 has brought about significant changes to the accounting for insurance and as a result, we have restated comparatives and the opening balance sheet as at 1 January 2022 in the financial statements and in the description below. No restatement was required as a result of adopting IFRS 9 as financial investments were already measured at fair value. Further information on the transition to IFRS 17 and IFRS 9 can be found on page 41.

Rothesay made an adjusted operating profit **(APM)** before tax of £1,358m (restated 2022: £579m) from a combination of new business and management of the in-force book. Borrowing costs and the increase in Contractual Service Margin (CSM) then meant that we made IFRS profit before tax of £906m (2022: restated loss of £(1,054)m).

The net increase in CSM **(APM)** of £731m (2022: a net increase of £170m) for the year is offset against the profit for the year. A breakdown of the change in CSM is provided on the following page.

The financial performance analysis shown in the table below provides an explanation of the way in which profits have been generated. Further explanation of the line items can be found in the notes on Alternative Performance Measures on page 225.

New business profit **(APM)** represents the value of the premiums charged less the best estimate liabilities and risk adjustment. As such, after the deduction of the allocated acquisition expenses, this is equal to the new business CSM including the impact of new reinsurance. New business profit (**APM**) for the year was £767m (2022: £440m). 2022 new business profit has been restated to remove the deduction for new business acquisition expenses which are now shown separately.

Financial performance (Alternative analysis of profit generation) (APM)	2023 £m	2022 restated £m
New business profit	**767**	440
New business acquisition expenses	**(201)**	(79)
Performance of in-force book	**649**	243
Non-economic assumption changes and model refinement	**143**	(25)
Operating profit before tax	**1,358**	579
Increase in CSM	**(731)**	(170)
Borrowing costs	**(123)**	(98)
Economic gains/(losses)	**402**	(1,365)
IFRS profit/(loss) before tax	**906**	(1,054)

IFRS profit before tax
£906m
2022: £(1,054)m

MCEV **(APM)**
£7.5bn
2022: £6.4bn

Financial review continued

Under IFRS 17, profits on new business and from experience and non-financial assumption changes are largely held back as what is known as the CSM. The CSM represents a significant store of future value that will result in a stream of future insurance profits. Insurance businesses that are growing are likely to see an increase in CSM **(APM)** as the CSM created from new business written during the year exceeds the CSM released during the year. If no new business is written then the reverse is likely to be true. The net increase in CSM **(APM)** was £731m (2022: £170m) as shown in the table below.

Profits generated on the in-force book (**APM**) were £649m (2022: £243m). These profits mainly arose from the investment return on surplus assets, the release of credit default allowances and the release of the risk adjustment as the business runs off. Profits generated on the in-force book also includes the impact of expenses which are not allocated to new business.

Demographic assumption changes, expense assumption changes, and model refinements contributed to an increase in adjusted operating profits (**APM**) of £143m (2022: loss of £(25)m). In practice, such impacts are held back under IFRS 17 leading to a change in CSM **(APM).**

Rothesay made economic profits/(losses) **(APM)** during the year of £402m (2022: losses of £(1,365)m). Economic profits/(losses) **(APM)** represent the change in value of assets from changes in economic conditions less the change in value of liabilities from those changes. During the year economic gains were mainly driven by the impact of decreases in interest rates and credit spreads tightening. These gains were partially offset by a valuation adjustment made for loans potentially impacted by the government's Leasehold and Freehold Reform Bill and the accompanying consultation on ground rents. This valuation adjustment reflects the uncertainty created by the potential reform.

Movement in CSM	2023 £m	2022 £m
CSM at the start of the year	**4,461**	4,291
New business CSM	**566**	361
Interest accretion on CSM	**108**	74
Change in CSM as a result of experience and assumption changes	**456**	43
Release of CSM	**(399)**	(308)
Increase in CSM	**731**	170
CSM at the end of the year	**5,192**	4,461

Alternative Performance Measures

Rothesay's strategy is focused on protecting the security of policyholder benefits, growth through writing value-driven new business and, ultimately, delivering sustainable shareholder value.

In the opinion of the Directors, the prescribed IFRS results and disclosures do not fully reflect long-term value or changes to capital requirements and therefore do not fully reflect the performance of Rothesay. In addition, the changes in IFRS reporting standards mean that it is difficult to analyse historical performance trends on the basis of IFRS results.

Rothesay therefore uses a number of Alternative Performance Measures (**APMs**) which focus on value generation and capital strength. Further information on Rothesay's APMs can be found on page 225, including definitions, why the measure is used and, if applicable, how the APM can be reconciled to the nearest GAAP measure. Rothesay uses the symbol **APM** to highlight APMs throughout the financial statements.

IFRS income statement highlights

The key line items in the consolidated statement of comprehensive income are summarised in the table below:

Income statement highlights	2023 £m	2022 restated £m	Commentary
Insurance revenue	**3,127**	2,891	Insurance revenue represents the consideration for providing the insurance service in the year, which includes expected claims and directly attributable expenses, release of risk adjustment and CSM amortisation.
Insurance service expense	**(2,658)**	(2,530)	Insurance service expense represents actual claims and directly attributable expenses paid.
Net expense from reinsurance contracts held	**(49)**	(29)	Represents reinsurance service expense (actual reinsurance claims) less reinsurance revenue (expected unwind of reinsurance liabilities plus expected reinsurance claims).
Insurance service result	**420**	332	The insurance service result is the difference between the actual and expected cost of delivering the insurance service.
Total investment return/(loss)	**5,100**	(15,376)	Investment returns for Rothesay are unchanged by the introduction of IFRS 17.
Net insurance finance result	**(3,989)**	14,233	Under IFRS 17, net insurance finance result represents interest accreted on insurance liabilities net of reinsurance (best estimate liabilities, risk adjustment and CSM) and the increase/decrease in net insurance liabilities as a result of changes in economic assumptions.
Net insurance and investment result	**1,531**	(811)	The net insurance and investment result is the profit/(loss) before unattributable expenses and finance costs.
Operating expenses	**(118)**	(46)	Under IFRS 17, only those expenses not directly attributable to the fulfilment of a portfolio of insurance contracts are separately disclosed in the income statement. A breakdown of expenses is provided in note B.3.
Finance costs	**(507)**	(197)	Finance costs represent interest payable on borrowings and on collateral. These costs are unchanged by the introduction of IFRS 17.
Profit/(loss) before tax	**906**	(1,054)	
Income tax (expense)/credit	**(213)**	277	After allowing for the impact of losses arising from the implementation of IFRS 17, the Group's effective tax rate is 23.5%.
Profit/(loss) after tax	**693**	(777)	

Financial review continued

IFRS statement of financial position

The key line items in the consolidated statement of financial position are summarised in the following table:

Statement of financial position highlights	2023 £m	2022 restated £m
Financial investments	**98,968**	90,929
Reinsurance contract assets	**216**	54
Deferred tax asset	**658**	713
Other assets	**3,361**	3,274
Total assets	**103,203**	94,970
Share capital and share premium	**510**	510
Tier 1 notes	**793**	793
Employee scheme treasury shares and share-based payment reserve	**(150)**	(143)
Profit and loss reserve	**3,065**	2,760
Other reserves	**133**	137
Total equity	**4,351**	4,057
Insurance contract liabilities	**54,630**	40,971
Reinsurance contract liabilities	**461**	848
Payables and financial investment liabilities	**41,281**	47,188
Borrowings	**2,248**	1,764
Other	**232**	142
Total liabilities	**98,852**	90,913
Total equity and liabilities	**103,203**	94,970

As a result of the transition to IFRS 17, we have restated the balances of insurance contract liabilities, reinsurance assets, reinsurance liabilities and profit and loss reserves for 2022 in the table above. Please see note A.4.

Assets under management (APM)

Assets under management adjusts for the gross up of derivative values and can be derived by adjusting total assets for reinsurance, payables, derivatives, collateralised financing and deferred tax. Assets under management have increased from £47.0bn at 31 December 2022 to £61.0bn as at 31 December 2023, driven by the impact of new business premiums. A reconciliation of assets under management is provided in the notes on Alternative Performance Measures on page 225.

Borrowings

Borrowings increased to £2,248m (2022: £1,764m) as a result of the issuance by RLP of £500m of Tier 2 notes on 16 May 2023.

Deferred tax asset

The implementation of IFRS 17 led to a reduction in equity as at 1 January 2023 of £2.1bn net of creation of a deferred tax asset of £0.7bn. Under the tax regulations relating to IFRS 17, the tax relief on the losses arising from the adoption of IFRS 17 will be equally spread over a transitional period of ten years from 1 January 2023. As Rothesay made sufficient profits during the year to utilise the transitional losses, the value of the deferred tax asset fell by £66m. Current financial projections suggest that all of the deferred tax asset will be utilised by the end of the ten-year transitional period but, were that not to be the case, the deferred tax asset could be held for a longer period and utilised under the existing tax regime.

Insurance liabilities

Insurance contract liabilities, which consist of the best estimate liabilities, the risk adjustment and the CSM, increased from £41.0bn as at 31 December 2022 to £54.6bn as at 31 December 2023. This move was largely driven by the impact of new business (see notes E.1 and E.2).

Total equity and adjusted equity (APM)

The increase in total equity (an increase of £294m from £4,057m at 31 December 2022 to £4,351m at 31 December 2023) was driven by IFRS net profit less the £351m dividend and RT1 coupons during 2023.

The introduction of IFRS 17 led to a reduction in Group equity of £2.1bn as at 1 January 2023 (see Application of IFRS 17 and IFRS 9 below). Prior to the effective date of IFRS 17, the Board approved a capital reorganisation leading to a reduction in share premium of £1.0bn and a corresponding increase in the profit and loss reserve in the second half of 2022. Please see note C.4.

Adjusting equity for CSM net of tax and the value of the sterling-denominated RT1 debt provides a high level proxy for the value of the Group and gives adjusted equity **(APM)** of £7.5bn (2022: £6.6bn).

Financial review continued

Market consistent embedded value (APM)

Market consistent embedded value (MCEV) reporting provides a useful measure of potential future profit on Rothesay's in-force business.

The introduction of IFRS 17 led to a reduction in the net worth of Rothesay Limited due to the retrospective changes required and, in particular, the creation of the CSM. Under MCEV, this reduction is then offset by an increase in the value of in-force business reflecting the release of the CSM over time and the deferral of tax such that as at 1 January 2023 MCEV increased by £200m. This can be seen in the table below. The MCEV is presented as an adjustment to IFRS Net Worth, the value of in-force business represents the present value of future release of IFRS17 risk adjustment and CSM, net of tax, along with the costs of solvency capital and cost on non-hedgeable risk.

Market consistent embedded value (APM)	2023 £m	2022 £m	2022 restated £m
Net worth of Rothesay Limited	**6,599**	7,940	5,821
Value of in-force business	**3,752**	766	3,085
Less: debt including RT1 notes	**(2,842)**	(2,275)	(2,275)
MCEV	**7,509**	6,431	6,631

A movement analysis for the overall MCEV is provided in the table below. We have not restated the 2022 movement analysis as the movements would be similar under IFRS 4 and IFRS 17 but we have restated the new business value to reflect removal of the deduction for allocated expenses which are now shown separately. Non-operating variances include borrowing costs and, for 2023, the dividend payment, and the impact on MCEV of the FIM implementation and the Risk Margin reform.

Analysis of movement in MCEV	2023 £m	2022 restated £m
Opening MCEV (based on IFRS 4 accounting)	**6,431**	7,096
Impact of IFRS 17	**200**	N/A
Restated opening MCEV (based on IFRS 17 accounting)	**6,631**	N/A
New business value	**607**	315
Acquisition expenses allocated to new business	**(144)**	(76)
Management of in-force book	**492**	216
Economic variances	**257**	(1,000)
Other non-operating variances	**(334)**	(120)
Total MCEV earnings	**878**	(665)
Closing MCEV	**7,509**	6,431

Further information can be found in the notes on Alternative Performance Measures on page 225.

Application of IFRS 17 and IFRS 9

Rothesay has applied IFRS 17, the accounting standard for insurance contracts, and IFRS 9, the accounting standard for financial instruments from 1 January 2023.

IFRS 17 has introduced significant changes to the accounting for insurance and, as a result, comparatives for 2022 and the opening balance sheet as at 1 January 2022 have been restated. There is no transitional impact in adopting IFRS 9 as Rothesay's financial investments are already measured at fair value and there is no re-measurement and re-designation between asset classes under the new standard.

The IFRS 17 standard has had a significant impact on the way that Rothesay's results are reported because the standard rebuilds performance measurement in areas ranging from a new definition of insurance revenue to the elimination of upfront profits and spreading of profit across the lifetime of the contract.

The implementation of IFRS 17 calculations was successfully executed through 2022 and, from the start of 2023, IFRS 17 results were being monitored on a daily basis in the same way as other key financial metrics, such as Solvency II and MCEV.

The standard introduced a model that measures groups of contracts based on a best estimate of the present value of future cash flows that are expected to arise as Rothesay fulfils the contracts (the best estimate liabilities or BEL), an explicit risk adjustment for non-financial risk (the risk adjustment or RA) and a contractual service margin (CSM) that is released over the duration of the contract. The BEL, RA and CSM then collectively form the insurance liabilities.

Under IFRS 17, profits and losses arise largely from:

- One year's run-off of insurance liabilities, namely the release of risk adjustment and amortisation of CSM on existing business;
- Net investment returns in excess of those assumed in calculating the insurance liabilities, including returns on surplus assets; and
- Economic profits or losses from the impact of the changes in economic conditions.

Profits on new business and from experience and non-financial assumption changes are largely held back as adjustments to the CSM and amortised over time. This introduction of the CSM creates a significant store of future value that will result in a stream of more predictable insurance profits compared to the position under the previous insurance contract accounting standard. Losses would be recognised on day one for groups of insurance contracts that are onerous, though Rothesay has not written any groups of contracts which were onerous at inception or have since become onerous.

Over the full duration of the contract, the same profit is expected to be generated, but IFRS 17 leads to a slower emergence of profit than under the previous insurance accounting standard, IFRS 4. Under IFRS 17, no day one profit is recognised and a CSM and RA are established. Profits under IFRS 17 are then recognised as the RA is released and the CSM amortised.

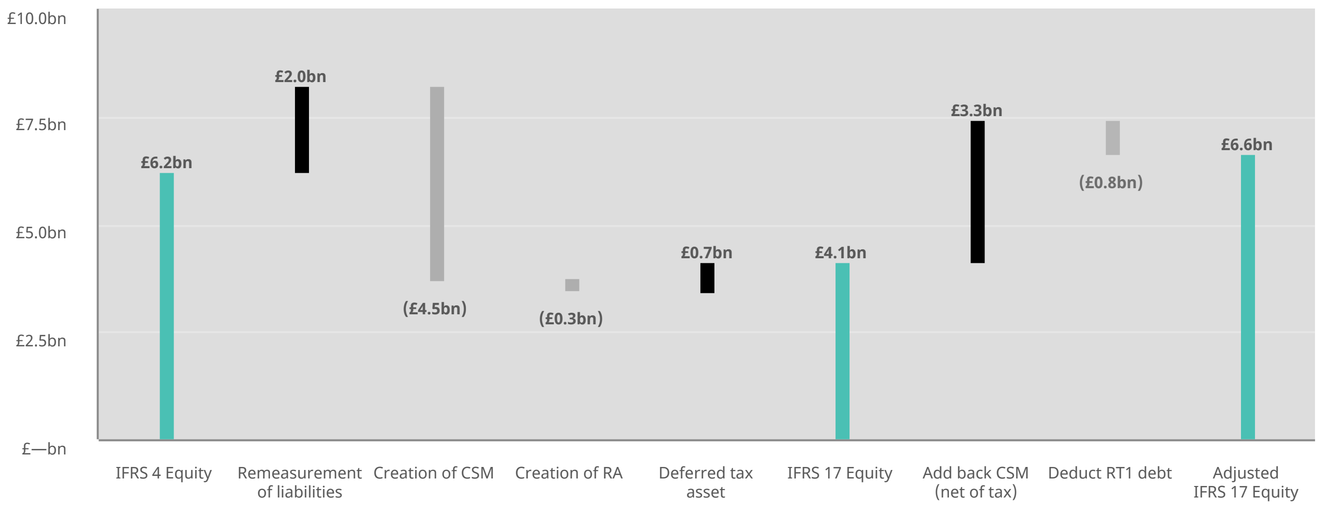
The introduction of IFRS 17 does not materially impact Rothesay's solvency position or the ultimate profitability of new business. As a result, changes to IFRS accounting do not impact new business pricing or our business strategy. Despite the significant decrease in total equity due to IFRS 17 transitional losses, we expect that our ability to pay dividends will continue to be driven by our Solvency II balance sheet. This can most easily be understood by considering the impact of new business which has no day one impact on distributable earnings under IFRS 17 but has a day one capital strain under Solvency II.

Application of IFRS 17 and IFRS 9 continued

IFRS 17 balance sheet as at 1 January 2023
The standard applies IFRS 17 retrospectively to historic business which means that much of the historic profit recognised under IFRS 4 is required to be held back as CSM. The impact of the retrospective changes required as at 1 January 2022 led to an increase in net insurance liabilities of £1.6bn. This was then partially offset by the creation of a deferred tax asset of £0.4bn so that the introduction of IFRS 17 led to a reduction in Group equity of £1.2bn as at 1 January 2022 compared to the equity published under IFRS 4.

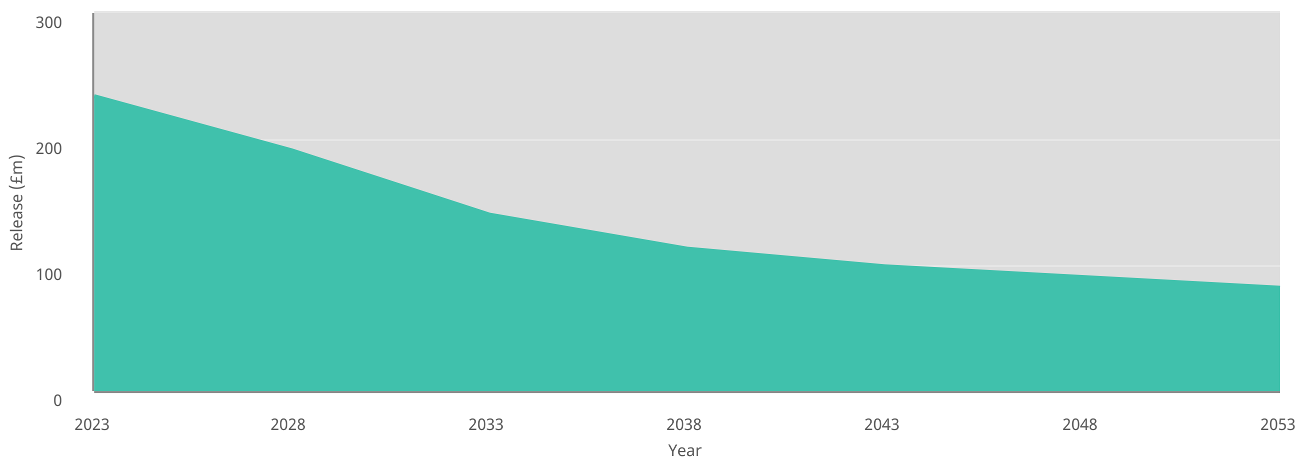
The restated loss before tax under IFRS 17 for 2022 was then £1.1bn. The combined impact on the balance sheet of the retrospective changes required under IFRS 17 and the restated losses for 2022 is shown in the chart below. These changes led to a reduction in Group equity of £2.1bn as at 1 January 2023 compared to the equity published under IFRS 4. If we then adjust for the CSM net of tax and the value of the sterling-denominated RT1 debt then this gives adjusted equity **(APM)** of £6.6bn as at 1 January 2023.

Impact on Group equity as at 1 January 2023



The CSM and RA set up on 1 January 2023, which amount to £4.8bn, represent the stored value that will be released over time as the existing business runs off. The projected release (allowing for interest accretion) of the CSM and RA held as at 1 January 2023 (and not allowing for new business thereafter) is illustrated in the chart below.

Projected annual release of CSM and RA as at 1 January 2023



Comparison of profits under IFRS 4 and IFRS 17 (2022)

Under IFRS 4, net profit before tax for 2022 was £170m. This compares to a restated loss before tax under IFRS 17 of £(1,054)m. The table below provides a comparison of the income statement highlights under the two bases. The IFRS 4 numbers are consistent with those disclosed in the 2022 Annual Report and Accounts except that the results have been re-ordered:

2022 Income statement highlights	IFRS 17 £m	IFRS 4 (re-ordered) £m	Commentary
Net premiums written	**N/A**	1,404	Under IFRS 17, premiums, claims and changes in insurance liabilities are replaced by insurance revenue and service expenses.
Net claims paid	**N/A**	(862)	
Change in net insurance liabilities	**N/A**	15,433	
Insurance revenue	**2,891**	N/A	Insurance revenue represents the consideration for providing the insurance service during the year, which includes expected claims and directly attributable expenses, release of risk adjustment and CSM amortisation.
Insurance service expense	**(2,530)**	N/A	Under IFRS 17, insurance service expense represents actual claims and directly attributable expenses paid.
Net expense from reinsurance contracts held	**(29)**	N/A	Under IFRS 17, net expenses from reinsurance contracts held represents reinsurance service expenses (actual reinsurance claims) less reinsurance revenue (expected unwind of reinsurance liabilities plus expected reinsurance claims).
Insurance service result	**332**	15,975	Under IFRS 4, we have simply totalled premiums less claims plus change in insurance liabilities. The previous presentation grouped items differently.
Net investment income/investment return	**(15,376)**	(15,376)	Investment returns are unchanged by the introduction of IFRS 17.
Net insurance finance result	**14,233**	N/A	Under IFRS 17, net insurance finance result represents interest accreted on insurance liabilities net of reinsurance (best estimate liabilities, risk adjustment and CSM) and the increase/decrease in net insurance liabilities as a result of changes in economic assumptions.
Net insurance and investment result	**(811)**	599	
Operating expenses	**(46)**	(232)	Under IFRS 17, only those expenses not directly attributable to the fulfilment of a portfolio of insurance contracts are separately disclosed in the income statement. Of the total IFRS 4 operating expenses, £79m of expenses are attributable to the fulfilment of new business contracts during the year, £40m to the fulfilment of new business contracts expected to be written in the future, and £67m to the recurring costs associated with the fulfilment of insurance contracts.
Finance costs	**(197)**	(197)	Unchanged by the introduction of IFRS 17.
(Loss)/Profit before tax	**(1,054)**	170	Note that under IFRS 4, no insurance acquisition asset was established. Adjusting the IFRS 4 result for the insurance acquisition asset would lead to a profit of £210m rather than £170m.

Application of IFRS 17 and IFRS 9 continued

The table below shows the alternative analysis of profit generation under IFRS 17 and under IFRS 4. The IFRS 4 analysis is consistent with that disclosed in the 2022 Annual Report and Accounts except that the results have been adjusted as noted in the table to ensure broadly consistent treatment of expenses:

2022 Income statement highlights	IFRS 17 £m	IFRS 4 adjusted £m	Commentary
New business profit (assuming assets fully invested)	**440**	246	Under IFRS 17 this represents the value of the premium less BEL and RA. Under IFRS 4 it is the value of the premium less the insurance liabilities assuming full investment (but calculated using a prudent discount rate).
New business acquisition expenses	**(79)**	(79)	The acquisition expenses relating to new business have been split out for both IFRS 17 and IFRS 4.
Impact of temporarily being invested in gilts	**N/A**	—	Under IFRS 17, discounting is based on full investment whereas under IFRS 4 this adjustment was required where premiums had not been fully invested.
Profit from investing prior year's premiums	**N/A**	201	Under IFRS 17, discounting is based on full investment so there is no impact of investing prior year premiums (apart from a potential drag on investment performance included in the performance of the in-force book) whereas under IFRS 4 investment of prior year premiums increased profit.
Performance of in-force book	**243**	640	Under IFRS 4 this includes the release of any margins held and under IFRS 17 the release of the RA. It also includes experience variances and investment out-performance under both IFRS 4 and IFRS 17. This is likely to be higher under IFRS 4 because of prudence in the discount rate. Under IFRS 17, the impact of experience variances is then reversed out through the CSM. This line also includes administration and other expenses which are not attributable to new business (previously shown separately). The IFRS 4 line has been amended here to include these expenses (£161m) for comparability.
Non-economic assumption changes and model refinement	**(25)**	(18)	In this analysis, the impact of assumption changes is shown for both IFRS 4 and IFRS 17, although under IFRS 17 most of this impact is reversed out through the CSM.
Adjusted operating profit (APM)	**579**	990	
Increase in CSM	**(170)**	N/A	Under IFRS 17, the difference between the value of the premium less BEL and RA is either used to meet acquisition expenses or sets up the CSM. In addition, experience variances and changes in assumptions largely impact the CSM. These increases in the CSM are then partially offset by the run-off of the historic CSM, after allowing for interest accretion.
Borrowing costs	**(98)**	(98)	
Economic losses	**(1,365)**	(722)	Given Rothesay's approach to hedging (which is to hedge between MCEV and Solvency II), under IFRS 17 the mismatch between assets and liabilities is greater than under IFRS 4, which leads to an IFRS 17 balance sheet more sensitive to economic changes than the IFRS 4 balance sheet. For comparability, the IFRS 4 line has been amended to include an £8m adjustment for reinsurance fees.
IFRS (loss)/profit before tax	**(1,054)**	170	Note that under IFRS 4, no insurance acquisition asset was established. Adjusting the IFRS 4 result for the insurance acquisition asset would lead to a profit of £210m rather than £170m.

Capital management

Rothesay is well positioned for growth due to a strong capital position.

Rothesay's capital management framework is designed to meet the following objectives:

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

Rothesay aims to maintain solvency coverage in the range of 140% to 160% of the regulatory minimum solvency capital requirement (SCR). We started the year with capital surplus well above our target operating range but as we write large volumes of new business the solvency coverage is expected to move closer to our target operating range.

We operate a dynamic capital management framework which reflects the sensitivity of different performance measures. Our access to real-time solvency information and balance sheet sensitivities allows us to tailor our hedging strategy to manage the trade-offs between the solvency capital position and the embedded value of the business in such a way as to protect the long term value of the business.

As at 31 December 2023, Rothesay had an SCR coverage ratio (**APM**) of 273% (2022: 255%), giving us significant excess capital to write new business. The solvency positions of the Group and RLP are summarised in the table below.

	Group		RLP	
Solvency position of the Group and RLP	2023 £m	2022 £m	2023 £m	2022 £m
Tier 1 capital	**6,916**	6,783	**7,008**	6,868
Tier 2 capital	**1,402**	849	**1,402**	849
Tier 3 capital	**458**	434	**458**	434
Own Funds available to meet SCR	**8,776**	8,066	**8,868**	8,151
Ineligible capital	**(310)**	n/a	**(310)**	n/a
Own Funds (APM) eligible to meet SCR	**8,466**	8,066	**8,558**	8,151
SCR	**3,101**	3,162	**3,101**	3,162
Surplus above SCR	**5,365**	4,904	**5,457**	4,989
SCR coverage (APM)	**273%**	255%	**276%**	258%
SCR coverage without transitional solvency relief	**264%**	233%	**267%**	235%

In 2023, HM Treasury legislated for significant reforms to Solvency II's risk margin. These take effect as at 31 December 2023 as part of the move towards the new UK prudential regime for insurers, Solvency UK. This caused a significant improvement in Rothesay's solvency position. This surplus increase is driven by the reduction in the risk margin, partially offset by an associated reduction in transitional relief. Transitional relief was recalculated on 31 December 2023, the same day the risk margin reform was implemented.

In May 2023, RLP issued £500m of Tier 2 notes to provide additional capital for new business. Given Rothesay's solvency position and, in particular, the size of the SCR, some capital is not currently eligible as Own Funds to meet SCR. However, as we continue to write new business, solvency capital requirements will increase and all the capital will become fully eligible.

Capital management continued

Rothesay's application to use a full internal model (FIM) for the calculation of the SCR was approved by the PRA for use from 30 June 2023. The FIM means that Rothesay's bespoke models are used for calculation of all risks and ensure that the allocation of capital to investment is consistent with the risk inherent in the types of highly secured and collateralised investments which are core to Rothesay's investment strategy. Adoption of the FIM led to an increase in surplus of £119m as at the date of adoption.

Given our robust solvency position, some of the new business written in 2022 and 2023 remains in the Non-Matching Adjustment fund in order to provide flexibility in transitioning assets to our long-term investment strategy. The business is eligible for inclusion in the Matching Adjustment fund and moving the business would improve both Own Funds and the SCR requirement because the Matching Adjustment could then be used in calculating the technical provisions.

The following table provides a breakdown of the SCR, post-diversification benefit, between modules. Insurance risk relates mainly to longevity risk. Market risk is dominated by spread risk, i.e. the risk that credit spreads widen. The change in the composition of the SCR during 2023 reflects the impact of adopting the FIM.

Composition of SCR (%)	2023	2022
Market risk	**61**	72
Insurance risk	**27**	17
Operational risk	**6**	6
Counterparty risk	**6**	5

An analysis of the change in surplus above SCR is shown in the following table. Surplus above SCR has increased from £4,904m to £5,365m (after allowing for amortisation of 1/16th of transitional solvency relief on 1 January 2023) with key drivers being the anticipated surplus generation from the in-force book, the gain from the reform to the risk margin and the offsetting capital strain associated with new business written during the year.

Differences between IFRS accounting standards and Solvency II mean that management actions and changes in economic conditions can have very different impacts on the two bases. All numbers are shown net of tax impacts and allow, where relevant, for changes in transitional solvency relief. The analysis is consistent with that disclosed in the 2022 annual report and accounts except that the results have been adjusted to ensure that the treatment of expenses is broadly consistent with the IFRS 17 alternative performance analysis.

Change in surplus	2023 £m	2022 £m
Opening surplus	**4,904**	4,612
Amortisation of 1/16th of transitional on 1 January	**(52)**	(133)
New business (on a fully invested basis)	**(667)**	(264)
Impact of temporarily being invested in gilts	**151**	—
Impact from investing prior year's premiums	**—**	(120)
Performance of in-force book	**1,346**	786
Non-economic assumption changes	**104**	7
Borrowing costs and RT1 coupons	**(130)**	(132)
Economic conditions	**(438)**	540
Impact of LACDT	**113**	(147)
New capital issuance	**405**	—
Impact of new business not in MA fund	**(142)**	(245)
Dividend payment	**(348)**	n/a
Full internal model implementation	**119**	n/a
Surplus generation	**461**	292
Closing surplus	**5,365**	4,904

The Board approved the payment of an interim dividend on 6 July 2023; the size of this payment is £351m, which was paid on 4 October 2023. The impact of the dividend payment on a Solvency II basis is slightly smaller at £(348)m.

> The global risk landscape is ever-evolving, we have continued to develop our risk frameworks in order to maintain policyholder security as we grow.

Peter Shepherd
Chief Risk Officer

Risk management

Risk management is at the heart of Rothesay's culture, systems and processes.

How we manage risk

Rothesay's risk management principles are driven by the key objectives of the business:

- To ensure that our liabilities to policyholders can be met in a full and timely manner.
- To ensure that our policyholders receive excellent customer service.
- To maintain our financial strength and capitalisation.
- To produce stable earnings from our in-force business.
- To protect and increase the value of our shareholders' investment.
- To safeguard Rothesay's reputation.

To do this we have a well established process of identifying, managing and monitoring risks on a continuous basis. This allows Rothesay to make rapid, informed decisions to manage through adverse conditions.

The risk management framework is designed to ensure that:

- Risks are well understood and can be explained to all stakeholders.
- Risk management and business strategy are aligned.
- All staff are aware of their individual responsibilities.
- Risks are monitored and managed in accordance with defined risk appetites.

Risk management is a continuous process and the risks to which Rothesay is exposed change over time. The framework is also designed to be responsive and is regularly reviewed to ensure that it remains highly effective. We have continued to invest in the Risk function, but we have always recognised that effective risk management starts with the staff who manage risks day in and day out, and so we ensure effective communication between teams, and that systems, data and other tools are providing the information to enable staff to make timely informed decisions – with risk management at the core of these decisions.

Risk management continued

Risks can be quantifiable, such as market risks, or non-quantifiable such as reputational or strategic risks, or could be a mix of both. Some risks have been a core part of the financial landscape for decades or more, while others, such as cyber risk, have emerged more recently and it requires an agile risk framework to adapt to these. Risks can materialise rapidly, such as a change in market conditions, or could emerge slowly over a number of years such as the outlook for life expectancy.

Risk management framework

Rothesay has a risk management framework (RMF) which is aligned to the 'three lines of defence model'. Fundamental to this is that every employee knows how they contribute to the effective identification, management, mitigation and monitoring of all types of risks.

The RMF ensures that accountabilities and responsibilities are clearly agreed and documented, and that there are appropriate checks and balances, including segregation of responsibilities.

The 'three lines of defence' model is widely used in financial services, and sets the boundaries between the different areas, making sure that there are no gaps in risk management or unexpected overlaps in accountability.

First line of defence

Risk Owners
Day-to-day risk management is delegated from the Board to the Chief Executive Officer (CEO) and, through a system of delegated authorities, to business managers. Rothesay also makes the distinction between:

- the risk-taking functions, including investment and new business origination; and
- the first line control functions, who are responsible for ensuring the integrity of Rothesay's operations and reporting. These include Operations, Finance and Legal.

Second line of defence

Risk Oversight
Design and maintenance of the risk management framework as well as risk oversight is provided by the Chief Risk Officer (CRO), his team and risk management committees.

Third line of defence

Risk Assurance
Internal Audit provides the Board and Executive with comprehensive, independent, objective assurance over governance, risk management and internal control.

Our risk management governance structure

Rothesay Limited

Board Risk Committee

Assists the Board in providing leadership, direction and oversight of the Group's risk appetite, tolerance, risk strategy, risk governance and risk management framework and of the risk aspects of major investments and corporate transactions. Its primary function is the ongoing monitoring and control of all financial, operational, insurance and other enterprise-wide risks associated with the activities of Rothesay.

Customer Conduct Committee

Assists the Board in ensuring that conduct towards customers meets Rothesay's strategic objectives, operates within risk appetite, and maintains compliance with applicable laws and regulatory requirements and expectations.

Executive Risk Committee **

Responsible for the overall operation of the Risk Management Framework (RMF), ongoing monitoring and control of enterprise-wide risk, including review and approval of all material new investment, hedging or liability transactions.

Executive Customer Committee *

Responsible for ensuring business culture, strategy and operational processes are effectively controlled and deliver appropriate customer outcomes.

Risk Management Committees

Customer Working Group *	Credit Committee **	Liquidity Working Group *	Technology Risk Committee *	Sustainability Committee **	ALM Committee *	Underwriting and Liabilities Committee *	Business Controls Committee *
Responsible for the review of policyholder and customer activities, ensuring that fair outcomes are being delivered.	Responsible for the ongoing monitoring and control of credit and counterparty risk associated with the activities of Rothesay.	Responsible for the ongoing management of liquidity, including the continual monitoring of the appropriateness of the liquidity risk management framework.	Responsible for the ongoing management of technology risks across Rothesay, encompassing technology operations risk, data integrity and protection risk, and cyber security risk.	Responsible for the development and implementation of the climate change and ESG strategy and risk management framework.	Responsible for review and approval of significant asset, liability and hedging activities.	Responsible for considering all new insurance and reinsurance transactions which Rothesay is considering and for providing oversight and review of all existing member data, experience and bookings of all such transactions which Rothesay subsequently enters into.	Responsible for ensuring that business processes are effectively controlled and operational risks are appropriately managed.

* Denotes 1st Line Committee
** Denotes 2nd Line Committee

The Board is responsible for oversight of the management of exposure to risks and is supported by the Board Risk Committee whose membership consists entirely of Non-Executive Directors and looks to ensure that the management of the business is conducted within the delegated risk framework from the main Board.

This model of separation of responsibilities is also aligned to the Senior Managers & Certification Regime, which ensures that individuals have very clear allocation of responsibilities.

Building on this model, the RMF then adds the detail such that risk management ownership, responsibilities and processes are clear. This both informs and is directed by Rothesay's business strategy. The foundation of the RMF is the clear identification of the risks that Rothesay faces. From this, the RMF can then go on to define detailed aspects including:

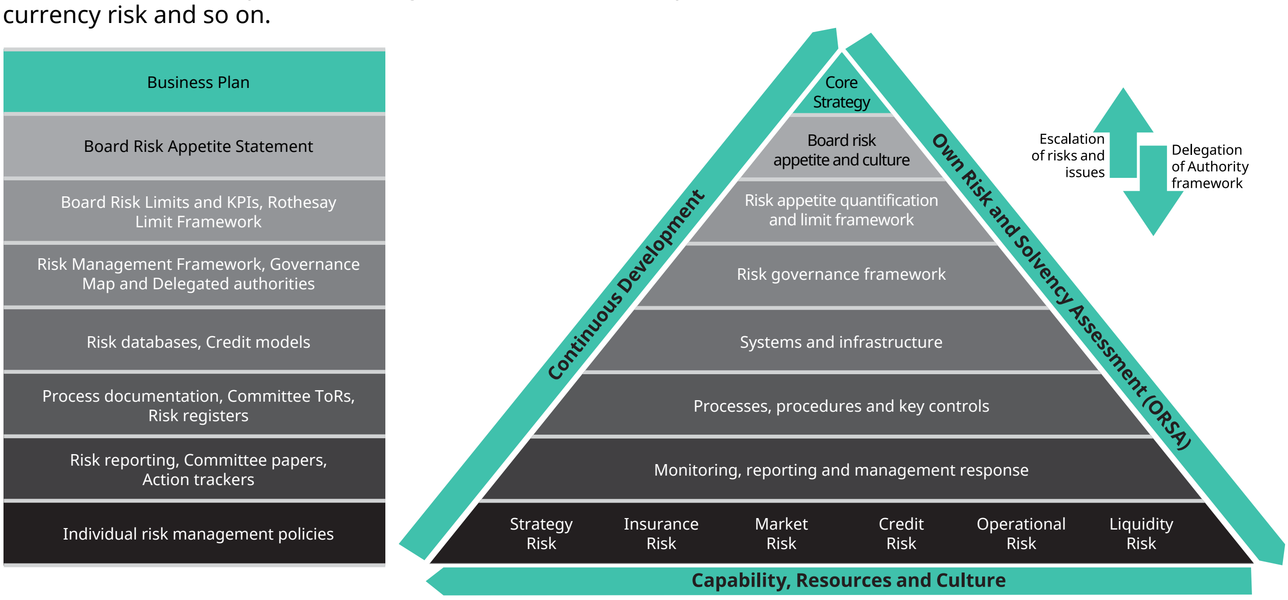
- Risk appetites and risk limits;
- How risks should be measured and reported on;
- Processes for controlling or managing risks; and
- Individual accountability for risk topics.

Risk management continued

In order to do this Rothesay has defined a Risk Taxonomy, which is a consistent way of describing and subdividing risks consistently across Rothesay and between time periods. This is regularly reviewed to ensure that it is complete. The seven key risks identified are set out in the table below.

Risk category	Definition
Strategy risk	The risk of loss in future earnings and capital arising from changes in the competitive, economic, legal or political environment, changing customer behaviour, or a failure to select appropriate strategic or long-term business plans.
Insurance risk	The risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions, or changes in longevity or other expectations.
Market risk	The risk of loss or of adverse change resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.
Credit risk	The risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors.
Liquidity risk	The risk of being unable to realise investments and other assets in order to settle financial obligations when they fall due.
Operational risk	The risk arising from inadequate or failed internal processes, personnel or systems, or from external events. This includes conduct risk, project risk and cyber security risk.
Technology risk	The risk arising from a technology failure which could disrupt the business.

These risks are then split into more granular risks, for example market risk includes interest rate risk, inflation risk, currency risk and so on.



Board risk appetite and culture

Rothesay's risk appetite expresses the types of risk that Rothesay is willing to take in pursuing strategic objectives. The Board's risk appetite sets the tone for the culture of risk management throughout the organisation.

Our strategic approach is to de-risk our business in order to achieve attractive risk-adjusted returns. We also aim to protect regulatory surplus, manage liquidity and minimise balance sheet volatility.

Risk taking is limited to circumstances where we believe that we fully understand the inherent and residual risks, where we are able to manage them within prudent, observable levels and where incurring the risks provides sufficient value to our stakeholders.

We aim to substantially mitigate the financial risks in our portfolio in order to protect policyholders, lock in value and to safeguard capital surplus such that excess capital may be invested into attractive risk-adjusted new business opportunities where Rothesay believes it has a comparative advantage.

Our risk appetite statement sets out the types of risk that we are willing to be exposed to in order to meet our strategic objectives. They are categorised as desired, tolerated or undesired.

Risk preference	Description	Examples
Desired	Desired risks are those that we need to seek directly in order to deliver our core strategic goals. We will actively seek to take on these risks because taken together they are expected to deliver a good risk-adjusted return. These are also risks we believe we have the capability and capacity to manage effectively within risk appetite limits.	Most Insurance Risks (given that our key business line is writing annuities), some Credit Risks (given our desire to make a return through backing annuities with credit assets) and some Strategy Risks (given our clearly defined strategy).
Tolerated	Tolerated risks are those that we incur indirectly as a result of implementing our core strategy, and where we may be willing to accept some exposure. We will invest to ensure that these risks are adequately managed. We may seek to partially or fully reduce these risks depending on relative risk-adjusted returns.	Tolerated risks therefore mostly relate to Market Risks, where our business model naturally exposes us to these risks but we seek to reduce or hedge them partially or fully.
Undesired	Undesired risks are those that we incur indirectly as a result of implementing our core strategy, and where we would ideally seek to fully eliminate the exposure. These typically include risks where there is no compensation for holding the risk e.g. Operational Risk, but also risks which we do not feel sufficiently competent to manage. We are willing to invest in order to avoid or manage these risks as far as possible. Even where significant action is taken, some residual risk may be unavoidable.	Undesired risks include most Liquidity Risks (as we have no desire to fail to pay our policyholders and counterparties), and Operational Risks (as these are unrewarded).

Risk management continued

Risk appetite quantification and limit framework
The risk limit framework is intended to ensure the stability of earnings and solvency position of the business. Risk appetite is translated into quantifiable limits and early warning triggers that prompt management action to avoid our risk exposures breaching the Board's risk appetite. Limits exist in relation to market, credit, counterparty, liquidity, demographic and longevity risks and are sized with reference to our overall risk appetite and capital position. Limits are constantly reviewed and reported against.

Risk governance framework
Rothesay's risk governance arrangements strengthen the risk-taking and risk management of the business by adding challenge, oversight and independent assurance. This framework supports compliance with the Senior Managers and Certification Regime (SMCR).

Systems and infrastructure
Rothesay operates an integrated system infrastructure which captures all assets and liabilities centrally and provides us with the capability to report and monitor risk daily at both the portfolio and the individual transaction level. Close coordination of underwriting, reinsurance, investment and risk hedging functions ensures risk management is central to all aspects of the business, and that new business pricing reflects latest market conditions, hedging costs and investment opportunities, as well as comprehensive liability analysis.

Policies, processes, procedures and key controls
Rothesay has developed appropriate processes and documented procedures, appropriate controls and other risk mitigation techniques in order to effectively manage risks. The policy framework ensures that an appropriate suite of risk management policies is maintained which sets out the principles and standards for risk identification, measurement, mitigation, control and monitoring.

Monitoring, reporting and management response
We monitor our risk exposures against risk appetite as well as management actions on a continuous basis to confirm that our risk mitigations are effective. We then report our monitoring to oversight committees and individuals with responsibility for risk management in order to inform business decisions. Monitoring considers both those risks to which Rothesay is currently exposed, in addition to emerging risks that may impact Rothesay in the future.

Capability, resources and risk culture
Rothesay seeks to attract and retain the highest quality talent in the industry. The effectiveness of our risk management depends upon the high quality of our people and the strong risk culture and risk management practices.

We are committed to maintaining the highest standards of integrity, transparency and accountability. Good conduct is fundamental to our purpose, strategy and how we operate and is also good business practice. A good culture is one where people do the right thing, feel empowered to speak up if something doesn't look right and know they can rely on support from management. Training is conducted so that everyone understands Rothesay's culture and the part they play in maintaining standards and in managing risk effectively.

Rothesay's risk culture is set from the top down, with the Board and Senior Management ensuring that risk management is embedded throughout the organisation, and demonstrating day-to-day how risk management informs decisions big and small. Risk management and conduct are an integral part of Rothesay's performance review process, ensuring that all Rothesay employees are held to the highest standards.

Own Risk and Solvency Assessment (ORSA)
The ORSA is undertaken at least annually, approved by the Board, and involves an assessment of the risks to which the business is exposed as well as solvency forecasting in a range of scenarios, including consideration of the stresses that could jeopardise Rothesay's business plans. The ORSA is an important input to Rothesay's strategic planning cycle.

Rothesay also runs a number of stress tests on a daily and weekly basis. The stresses have been developed so as to provide coverage over the key risks implicit within the portfolio at the time. Examples of stresses currently applied to the portfolio include issuer default stresses, property stresses, credit spread widening, credit downgrades and market risk stresses on liquidity outflows.

Principal risks and uncertainties facing Rothesay

Rothesay's principal risks are credit, insurance, climate, liquidity and market related. An overview of these and other risks associated with the business, including an outline of how each is mitigated and how the risk has changed from last year, is provided in the table below. Our risk exposures generally increase with the size of the balance sheet; in the table below we have only shown an increasing trend where the increase has been out of line with this.

In the table, strategic priorities 1 to 4 refer to:
1. Financial security 2. Steady growth 3. Service excellence 4. Performance across measures

More details can be found in notes E and F of the financial statements.

Risk	Mitigation	Strategic priority	Change from 2022 annual report
Credit risk The risk that a borrower's creditworthiness deteriorates or that the borrower defaults. Our financial and/or capital position could be adversely impacted by downgrades, credit spread widening or defaults.	Rothesay carefully selects the investments it makes in order to generate an adequate risk-adjusted return, has a preference for investments with structured protection such as collateral, and may purchase external credit protection to mitigate the impact of any defaults. Rothesay maintains a highly experienced market-facing team as well as a second-line internal credit risk team who regularly monitor and assess the credit risk associated with its investments.	1,4	→ Global financial conditions remain constrained and continue to be an area of focus across our borrowers.
Counterparty default risk The risk that a financial counterparty's creditworthiness deteriorates or that a counterparty defaults. Our financial and/or capital position could be adversely impacted by downgrades, credit spread widening or defaults.	Rothesay prefers to work with highly rated and stable counterparties, and to diversify counterparty exposures where appropriate. Derivative and reinsurance contracts are subject to margining requirements to ensure exposures are appropriately collateralised. Rothesay actively monitors counterparties for downgrade risk, and may also purchase credit protection to mitigate specific exposures.	1,4	→ Global financial conditions remain constrained and continue to be an area of focus across our borrowers.
Insurance risk The risk that demographic experience is different from expected. As the pensions insured by Rothesay are guaranteed, our financial and/or capital position could be adversely impacted if, for example, policyholders live longer than expected.	Rothesay invests in both people and modelling capabilities to understand its longevity experience and to help assess what could happen in the future. Rothesay aims to reinsure a majority of its longevity exposure. As at 31 December 2023, Rothesay had reinsured 87% of its longevity risk (2022: 89%) **(APM)**.	1,4	→ The impact of COVID-19 on future longevity remains uncertain, with deaths remaining elevated in 2023.

Risk management continued

Risk	Mitigation	Strategic priority	Change from 2022 annual report
Market risk The risk of adverse movements in interest rates, inflation or currency. Rothesay's financial and/or capital position could be adversely impacted by market movements to the extent that assets and liabilities are mismatched.	Rothesay monitors interest rate risk, inflation risk and foreign exchange risk closely, and uses derivatives to hedge the risks. We also undertake regular scenario testing, for example in relation to a UK downgrade, to understand the impact of potential combinations of stresses. Assets and liabilities are matched as closely as possible, including using inflation-linked assets to meet inflation-linked liabilities.	1,4	→ Market volatility has reduced versus 2022 but remains elevated and a key area of focus.
Property risk The risk of a fall in the value of property. Through its investments secured on property, Rothesay's financial and/or capital position could be adversely impacted by falls in the value of property.	Residential property risk is reduced through strict underwriting criteria, covering, for example, the quality of the underlying property, flood risk and loan-to-value limits by age of borrower. We have also established prudent reserves covering the potential cost of the no negative equity guarantee on lifetime mortgages. Exposure to commercial real estate is reduced by ensuring that loans have a low loan-to-value ratio, that there are appropriate covenants and that properties have strong tenants.	1,4	↑ Rising interest rates remains a driver of downward pressure for residential and commercial property prices.
Liquidity risk The risk of being unable to realise investments and other assets in order to settle financial obligations when they fall due. Given our holding of illiquid assets, there is a risk that we are unable to meet payments or collateral calls as they fall due in adverse circumstances.	Rothesay has a comprehensive liquidity management framework that ensures sufficient liquidity is held to meet collateral outflows as well as projected expenses and other outflows, in extreme market conditions.	1,4	→ Reduced market volatility in 2023 has resulted in reduced margin movements. Rothesay's liquidity position remains very robust and an area of ongoing focus.
Climate change Rothesay's assets are exposed to the potential impact of climate change. Such risks include: • physical risks such as increasing frequency and severity of flooding; and • transition risks which can arise from the process of adjustment towards a low-carbon economy.	Rothesay has enhanced its monitoring and management of climate change and ESG risks, reviewing and renaming the ESG Working Group to the Sustainability Committee, with increased representation from Executive Management. The Committee is responsible for overseeing sustainability related matters, including stress testing and modelling the plausible impact on Rothesay under climate-related scenarios. Our in-house investment team is responsible for the selection and management of all of Rothesay's assets. The team considers climate-related risk as part of the investment process. In addition, Rothesay considers flood risk as part of its lending policies.	1,4	→ Rothesay continues to enhance its ESG risk management framework, and has introduced an additional investment portfolio carbon intensity target.

Risk	Mitigation	Strategic priority	Change from 2022 annual report
Operational risk The risk of operational failure, including project risk, cyber risk and conduct failures. Rothesay is exposed to the risk of operational failure as a result of failure of a strategic business partner or of its own systems and processes. This could lead to reputational damage and increased costs.	Rothesay has no appetite for material operational risk losses, and has a strong control environment to limit these risks as far as possible. The Customer Conduct Committee is responsible for ensuring that customers are treated fairly by Rothesay and its strategic business partners. Strategic projects are monitored by Rothesay's Change Management function and relevant committees and are required to operate according to our project management framework. Scenario analysis covering a variety of potential operational risk events is regularly carried out. Rothesay seeks to mitigate cyber risk through robust processes and controls including data protection, penetration testing and staff training, and maintains ISO 27001 and ISO 22301 accreditation. Rothesay has established a new Technology Risk Committee, responsible for the ongoing management of technology risks across Rothesay. Where Rothesay outsources some of its responsibilities, we undertake thorough due diligence in advance of appointment and then have a strong programme of oversight.	3,4	→ Rothesay's operational risk profile has been stable throughout 2023, but cyber risk and third-party risk management continue to be key areas of focus.
Strategic, political and regulatory risk The risk of adverse changes to the regulatory or political environment. Rothesay's strategy, financial or capital position could be adversely affected by the impact of regulatory or political change.	Rothesay continues to actively monitor the political landscape. Where appropriate, Rothesay engages with government or responds to consultations to ensure our interests are protected for the benefit of our stakeholders. Strategic decisions and individual asset underwrites take into account the overall political landscape. Rothesay seeks to have a regular dialogue with regulators in order to ensure compliance, as well as the ability to react quickly to any unanticipated developments. Rothesay seeks to have an open and transparent relationship with regulators at all times. Rothesay is a member of the Association of British Insurers and British Property Federation.	1,2,4	↑ There are continued political risks globally, as well as ongoing regulatory change in the UK. The Government's reform of the leasehold market could have a material adverse impact on Rothesay's loans secured on ground rents.

Risk management continued

Changes in Rothesay's risk profile and emerging risks

Geopolitical risks have remained elevated in 2023. Inflationary pressures and global interest rates have also remained high, although inflation levels have begun to fall from the highs seen at the start of 2023 and central banks are starting to ease monetary policy tightening. The start of the year saw the impact of the emergency takeover of Credit Suisse by UBS in Switzerland and collapse of Silicon Valley Bank (SVB) and Signature Bank in the US but the effect on the market sentiment was transitory. Given this backdrop, markets have been surprisingly resilient, with key credit markets trading tighter in the year to date.

Rothesay has continued its strategy of patient investment in a diverse range of assets. During 2023, we have continued to invest in UK lifetime mortgages and now hold a portfolio of £6.2bn. We also continue to fund Dutch residential mortgages and long-term, fixed rate mortgages in the UK. Although these types of mortgage are secured on residential property, the risk profiles of lifetime mortgages and fixed-for-term mortgages are quite different.

Where possible, we have continued to switch assets to improve risk-adjusted returns or to reduce the risk of our portfolio. This includes consideration of sustainability-related risks, including climate change. We continue to actively monitor and manage potential downgrade risk across the investment portfolio, particularly as continued sustained inflation and uncertain central bank monetary responses may drive macro and individual counterparty weakness.

Our market-leading risk management systems, including access to real-time information about our risk positions, have allowed us to respond quickly to market conditions, protecting the strength of our balance sheet and ensuring that we are able to continue to execute our business plans. Our ongoing focus on liquidity risk management means that the Group's liquidity position remained robust throughout 2023. Rothesay contributed to, and supports the aims of, the PRA's system-wide exploratory scenario (SWES) which seeks to understand the behaviours of financial institutions such as Banks, insurers and pension funds, in particular in stressed conditions, to identify if and how firms' interactions may lead to risks to financial stability across UK institutions.

During 2023 Rothesay received approval for, and implemented, the Full Internal Model. The PRA released two key consultation papers on Solvency UK Reforms, giving both Rothesay and the wider UK insurance market considerably more certainty in the future direction of Solvency UK. While some uncertainty remains in relation to the precise way in which proposals will be implemented, we are pleased to see progress starting to be made to adapt the regulatory regime to better suit the UK market. In addition, Consumer Duty became effective at the end of July with training successfully rolled out across Rothesay and our Third Party Administrators and transitioned into BAU.

Cyber risk remains one of, if not the most significant non-financial risk to UK financial services firms, and this prominence is reflected in the PRA's continuing and increasing focus on the adequacy of firms' preventative and preparatory measures for cyber-attacks. State sponsored activity, the professionalisation of threat actors, and the ever-increasing sophistication of the tactics and techniques used to compromise systems have continued to be key themes for firms and industry to monitor over 2023. Rothesay continues to invest in systems and capabilities here.

As a result of the increase in interest rates, many pension schemes have found themselves in position to move to buy-out much earlier than they would have anticipated. The pipeline of potential new business opportunities in 2023 and beyond is significant and includes a number of substantial transactions.

Rothesay has extensive experience in executing large and complex transactions. Whilst Rothesay's existing Risk Management Framework has proven effective in this regard, with robust controls and continuous and active oversight from the Risk team, such a large pipeline combined with jumbo deals does have the potential to increase risk, and is an area of ongoing focus.

During 2023, in anticipation of the significant new business pipeline, the Risk function undertook an independent review of Rothesay's readiness. The review considered the impact on all areas of the business including pricing, reinsurance, capital, deployment, hedging, administration (including transition), systems and infrastructure. A number of potential new business scenarios were considered, ranging from a large volume of smaller transactions to a smaller number of large deals with complex features such as illiquid assets.

The review concluded that Rothesay is well prepared for the upcoming pipeline of new business with no material issues identified, noting that Rothesay has a long track record of executing large and/or complex deals.

While key risk indicators already exist as part of our risk management framework for our carbon intensity targets, the evolving nature of climate change requires us to broaden our risk management toolkit. We believe that scenario analysis, whilst imperfect, will become an important tool in enabling us to review the resilience of our investment portfolio against different hypothetical, yet plausible climate futures. In October 2023 Rothesay published the annual Environmental, Social and Governance (ESG) report, which for the first time comprised both a Sustainability Report and a Climate Report aligned with the Task Force on Climate-related Financial Disclosures.

Good progress is being made on the re-platforming of Rothesay's technology platform. As part of this, we continue to make significant investment in our in-house technology capabilities including the management of cloud and, as previously mentioned, cyber risks.

Despite the successful operation of our risk management framework in 2023, we are constantly reviewing and improving the entire framework to ensure that it continues to provide the insights to ensure effective risk-based decision making at all levels of the organisation.

Deaths remained elevated for much of 2023. COVID-19, which is no longer classified as a Public Health Emergency of International Concern by the World Health Organisation, does not explain the excess directly but the picture is complicated and we are closely examining the data in relation to mortality experience. The risk of further pandemics (returning spikes of COVID-19 or otherwise) with corresponding economic pressures remains a very present concern, but attention is now moving toward the "post-pandemic" experience. Rothesay monitors changes in current mortality and changes in expectations around future mortality, which could come from medical and pharmacological breakthrough, noting for example the rapid developments in vaccine technology in recent years. These risks are managed through extensive use of longevity reinsurance.

Emerging risks

Rothesay has identified a number of emerging risks that could impact the business over the medium to long term. Geopolitical risk continues to be high across Europe and Asia, driven by changes in government and evolving global relationships.

Over the longer term there are risks relating to sustainability, including climate change and the way in which these could impact Rothesay's investments. The management of climate-related risks is discussed in more detail in the ESG Section.

Rothesay has processes in place to monitor emerging, evolving or other currently unforeseen risks, including risks where the impact or implications are difficult to fully assess. Rothesay continues to manage its affairs prudently such that we are not overexposed to one particular risk and so that we only accept risks which we understand and which are consistent with our risk appetite.

Viability and going concern

Viability statement

Rothesay's strategy and business model both centre around long-term pension security for our policyholders. This focus leads both management and the Board to consider the viability of Rothesay on an ongoing basis. The viability of Rothesay is linked to our ability to generate profits and maintain solvency and liquidity over a period of time.

Why we assess viability

The Board's assessment of viability is a central process within our risk management and strategic planning framework. Rothesay has been purpose-built to protect pensions and ensuring the Group remains viable is critical to protecting our policyholders' pensions.

The period we assess

Making a viability assessment requires the principal risks of the Group to be thoroughly understood and regularly updated for changes.

Rothesay's own views of risk and associated capital requirements have been investigated through the Own Risk and Solvency Assessment (ORSA), including consideration of the way in which future changes to Rothesay's risk profile and also external influences may impact on the Group's solvency needs and ability to execute the business plan. The ORSA, approved by the Board in January 2024, considers risks across a five-year time horizon and therefore it is felt appropriate for the viability assessment to be considered across the same time horizon. Rothesay recognises that the Group has policyholder liabilities which extend beyond the five-year horizon but considers that year-by-year projections beyond the five-year period are likely to be unreliable given everything that might happen in that time. However, given the projected financial position of the Group in five years' time on a range of scenarios, the Board does not consider there to be any going concern or viability issues beyond this timeframe.

How we assess viability

The ORSA includes a number of forward-looking scenarios intended to test the impact of stresses and scenarios that may impact Rothesay's ability to execute the business plan. Scenarios considered include shocks to new business (up and down), liquidity, financial markets (including the global financial crisis) and longevity. Financial market stresses are calibrated to ensure that they capture the potential impact of climate change on our investments. More details on point-in-time stress testing can be found in notes E and F of the financial statements. The results demonstrate the robustness of Rothesay's solvency and provide insight into the way in which the business plan would need to be adapted to respond to adverse conditions. Management and the Board believe Rothesay is well capitalised on both a regulatory and economic capital basis.

Given the dynamic nature of the market, the strategic business plan is based on a shorter period of five years and is prepared on a rolling basis and reviewed and approved annually by the Board. The last business plan was reviewed and approved in July 2023. The business plan is refreshed if there are material changes to the business model or market environment. The business plan is centred around Rothesay's projected new business targets, with assumptions about pricing, reinsurance, investment strategy, revenue generation, expenses and leverage based on Rothesay's existing business and target operating model. In certain scenarios where there is very material new business growth, the plan also assumes that new equity would be provided by our shareholders. In the near term, IFRS pre-tax profits are largely driven by profit emergence on the Rothesay back book. New business then generates CSM which is released into IFRS profits over the longer term.

Our assessment of viability and going concern

Given Rothesay's significant surplus capital, the analysis showed that the Group can withstand very material adverse shocks. Based on the results of this analysis and consideration of viability, as the Group is holding surplus capital within its target operating range, the Board has a reasonable expectation that Rothesay will be able to continue in operation and meet its liabilities and obligations as they fall due over the five-year period of the assessment. The same analysis also informs the Board's assessment of Rothesay's ability to continue to adopt the going concern basis of accounting.

ESG report

In this section

Non-Financial and Sustainability Information Statement

We are dedicated to securing the future for every one of our policyholders.

In October, we published both our 2022 Climate and Sustainability reports, in which we set out our progress towards achieving our commitment of net zero emissions by 2050. ESG considerations, including climate change risk, are embedding in our business and risk management processes.

In this section of the Strategic Report, we discuss the way in which we are meeting our environmental commitments, and how we exercise our social responsibilities and governance in relation to ESG. Further details can be found in Rothesay's Climate Change and Sustainability reports.

Investing responsibly

For more information see **pgs. 63 – 71**

Rothesay is committed to transitioning our investment portfolio to net zero greenhouse gas emissions by 2050, aligned with a maximum temperature rise of 1.5°C above pre-industrial levels as outlined in the Paris Agreement. We are also committed to disclosing our approach to managing climate risk in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) guidelines.

Securing positive outcomes for our stakeholders

For more information see **pgs. 72 – 87**

When carrying out our business, Rothesay will endeavour to ensure that we meet our corporate and social responsibility and we will encourage our business partners to do the same. By doing so, we also believe that we will achieve positive outcomes for all our stakeholders.

In this section, we discuss the ways in which we support our stakeholders, including our people, our customers, our strategic business partners and our community.

Running a responsible business

For more information see **pgs. 88 – 91**

We have described how Rothesay has sought to embed responsibility for the management of risks associated with climate change and other relevant ESG risks throughout the business and how that is ultimately overseen by the Board in the section on investing responsibly. The way in which the interests of stakeholders are taken into account by the Board is described on pages 88 - 93 of the Strategic Report and the way in which the Board oversees the operations of Rothesay more broadly is covered in the Governance Report.

At Rothesay, we seek to protect the future of every one of our policyholders and to provide them with long-term financial security.

An essential part of our promise is the responsibility to carefully manage a wide range of uncertain risks and opportunities relating to sustainability factors, including climate change. In this report, we discuss how we build our climate strategy around three key pillars: investing our capital responsibly, engaging to facilitate change, and running a responsible and sustainable business.

Highlights

Accepted as a signatory of the UK Stewardship Code 2020

Maintained Carbon Neutral® company certification

Engaged with our most climate material issuers representing 66% of the total contribution to the carbon intensity of the corporate debt portfolio

50%
Added a target of 50% reduction in our publicly traded corporate debt portfolio by 2030 (vs our 2020 baseline).

Undertook emissions analysis of our key suppliers

Our pathway to Net Zero

At Rothesay, thinking long-term is central to our purpose and we understand the clear link between our core investment objectives and the need to consider climate impacts.

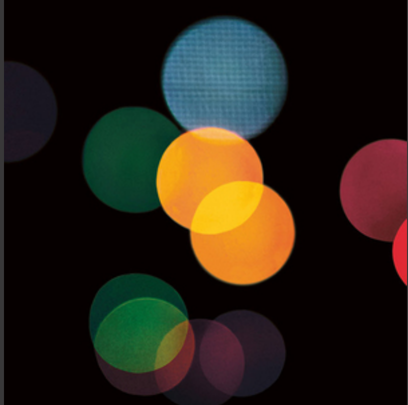
By 2050, Rothesay intend to have transitioned our investment portfolio to net zero. That transition includes setting out public targets and commitments to indicate how we intend to reach our goals. We also maintain a public Responsible Investment policy which outlines our investment strategy including any climate-related exclusions, such as the financing of new thermal coal mines. That document is regularly updated to reflect evolving best practice and to ensure we are in the best position to protect our policyholders and manage our long-term sustainability and climate commitments. Our assessment of climate-related impacts identified physical, transition and liability risks across the portfolio, as well as noting potential opportunities. As a result, we have formalised our climate strategy into three actionable areas of focus: Invest, Engage and Operate.

Non-Financial and Sustainability Information Statement continued

Our climate pillars

Invest:
Investing our capital responsibly

- Supporting real-world decarbonisation while reducing portfolio emissions in line with targets
- Reflecting material risks in our position statements
- Financing climate solutions
- Modelling and managing the risks associated with climate change



Engage:
Engaging to support positive change

- Engaging with our customers to understand their climate and sustainability priorities
- Engaging with issuers to enhance climate risk management
- Working with regulators, industry bodies and policymakers to support climate progress
- Facilitating expansion of climate and sustainability practices across our workforce

Operate:
Running a responsible and sustainable business

- Minimising and managing the emissions within our own operations
- Accounting for emissions within our supply chain
- Collecting data and reporting infrastructure to support climate resilience
- Maintaining effective and insightful governance across all business risks

There are strong connections between these pillars. The outputs of the engagement pillar inform our strategic position, helping us to identify priority actions and targets for our business operations and especially our investments. We constantly measure our progress and direct our efforts to support outcomes which benefit our stakeholder community. In line with our stated commitments, this helps to reduce both the risks posed to our portfolio and the risk our portfolio poses to the environment.

Climate-related Financial Disclosure requirements

We are disclosing our approach to managing climate risk in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) guidelines.

Governance

Effective management of climate opportunities and risks must be reinforced by a strong governance framework to ensure that climate considerations are factored into every business decision.

At Rothesay, we structure our governance framework so that our strategy, purpose, and values are clearly projected from our Board and can be understood and acted upon throughout the business. This approach, realised via the processes and controls we have in place, means that we can effectively manage our risk profile and help to secure the future pensions of every one of our policyholders. For information on the way in which the Board oversees the operations of Rothesay more broadly see the Governance Section. A full breakdown of the committees that support the Board in its oversight of climate can be found in our Climate Report.

Board oversight

The Board is responsible for overseeing the delivery of the overall strategy of the Group and as part of this is also ultimately responsible for the business' approach to climate and related risks and opportunities.

Since the presentation of the results of the 2019 PRA climate stress test, the topic of climate change has become a regular item at Board and Sub-Committee meetings with the material presented falling into three categories:

- General information designed to educate and ensure a broad understanding.
- Rothesay's climate-related metrics, alongside progress against our targets (for business operations and the investment portfolio).
- Sector-specific information that provides a guide to decision making at a granular asset-by-asset level.

Management oversight

The PRA requires that Senior Management functions are nominated to take overall responsibility for identifying and managing the risks from climate change. At Rothesay this role is held by the Chief Risk Officer.

A dedicated ESG team, managed by our Head of ESG and Liquid Credit Risk, reports into the Chief Risk Officer. This team acts as a central hub, supporting the coordination of Company-wide activity related to climate, with our analysts advising on climate strategy, framework and trade decisions, managing climate disclosures and monitoring relevant channels for evolving requirements and best practice.

Day-to-day responsibility for the implementation of Rothesay's climate change strategy has been delegated to the ESG Working Group (EWG), a sub-committee of the Executive Risk Committee. In line with Rothesay's philosophy of ensuring that climate considerations are not confined to one team, the EWG draws membership from across the business and is chaired by the Head of Investment Strategy.

The EWG discusses developments each week, meets formally once a month and is the forum at which all climate-related work is first discussed.

Recommendations from the EWG are subsequently presented for discussion and/or approval by the Executive ERC, and, for material items, the Board.

The EWG has developed a few sub-groups, comprising members of the ESG team, and other business experts. The purpose of these sub-groups is to help co-ordinate and drive the key strategic climate-related projects for Rothesay, involving the relevant business areas. This includes projects relating to scenario analysis, data processing and automation, and net zero transition planning, involving experts from teams including asset origination, risk, finance, legal and IT.

Beyond this, we strive to ensure all employees understand and support our climate-related goals. From 2021, alignment with, and contribution to, Rothesay's sustainability objectives forms part of every employee's annual performance review. We have also introduced training, mandatory for all employees, on sustainability in general and Rothesay's strategy in particular.

Strategy

The following table outlines our assessment of the most material climate-related risks and opportunities from Rothesay's perspective. It also outlines some potential impacts, the timeframes over which these may occur and how our strategy and frameworks are positioned to manage these. Impact is based on a materiality assessment incorporating potential financial and reputational consequences. We continue to review and assess our view of these risks and opportunities to ensure we remain appropriately positioned.

Non-Financial and Sustainability Information Statement continued

Invest	Potential impacts	Timeframe and impact			Management tools
	Increasing downgrade risk for investments misaligned with climate transition	Short	Mid	Long	• Screening to avoid material physical risk • Frequent screening for transition risk management • Engagement to understand plans of laggard issuers • Disinvestment • Tailoring maturities
	Additional capital requirements for portfolios with correlated climate risk	Short	Mid	Long	• Scenario analysis to check magnitude of possible climate losses • Engagement with regulators on solvency policy evolution
	Market spread risk as investors divest those issuers lacking plausible transition plans and those with emerging physical risks	Short	Mid	Long	• Screening to avoid material physical risk • Frequent screening for transition risk management • Engagement to understand plans of laggard issuers • Divestment • Tailoring maturities
	Increased market volatility as climate-related events lead to macro-economic impacts such as higher inflation and policy risk	Short	Mid	Long	• Scenario analysis to support monitoring performance and to understand potential impacts
	Potential opportunities	**Timeframe and impact**			**Management tools**
	Strong credit performance of investments in companies well positioned to benefit from low carbon economy	Short	Mid	Long	• Identification of pure green/climate leader investments • Classification of investments according to issuer activities with green taxonomy eligibility/alignment
	Strong performance of sovereign positions in countries well positioned to benefit from low carbon economy	Short	Mid	Long	• Monitoring of country performance against NDCs
	Reputational benefit of strong ESG risk management	Short	Mid	Long	• Transparent climate targets, risk management and disclosures

Key

Low impact   Medium impact   High impact

Engage	Potential impacts	Timeframe and impact			Management tools
	Increased litigation and/or reputational risk due to our climate-related activities	Short	Mid	Long	• Transparent climate targets, risk management and disclosures • Clear policies and processes to avoid anti-competitive behaviour • Horizon scanning to identify emerging regulation
	Changing stakeholder attitudes driving changes in behaviour	Short	Mid	Long	• Engagement with stakeholder and horizon scanning
	Potential opportunities	**Timeframe and impact**			**Management tools**
	Increased prevalence of investment instruments suitable for Rothesay's lending constraints	Short	Mid	Long	• Engagement with government and potential issuers

Operate	Potential impacts	Timeframe and impact			Management tools
	Increased requirements and regulatory oversight on our climate management and green/sustainability credentials	Short	Mid	Long	• Proactive governance for evolving requirements • Robust systems and processes • Ongoing review of processes and reporting, including annual reporting
	Increased disruption to our business operations and supply chain, caused by climate-related weather events	Short	Mid	Long	• Business contingency planning • Supply chain review for critical vendors
	Longevity expectations for policyholders depend on emerging climate scenarios	Short	Mid	Long	• Consideration of climate-related scenarios in calculation of longevity risk capital
	Impact of natural catastrophes adversely impacting reinsurers	Short	Mid	Long	• Robust counterparty risk management • Diversification of reinsurers
	Potential impacts	**Timeframe and impact**			**Management tools**
	Improved operating efficiency and high levels of resiliency	Short	Mid	Long	• Monitoring and reporting

Key

Low impact   Medium impact   High impact

Scenario analysis

Climate stress testing is an important and evolving component of Rothesay's risk management framework. Rothesay uses climate scenarios to explore, understand and model how physical climate change and the transition to a low carbon economy could affect the future value of our asset portfolio. We utilise several scenarios as the foundation for our climate scenario analysis. Each of the scenarios represents a different possible climate future over a 30-year horizon, encompassing the global energy system, economy, and physical environment. This allows us to identify opportunities and vulnerabilities under different climate outcomes across our portfolio, across a range of different scenarios, given the inherent uncertainty around how the decarbonisation of the global economy will ultimately play out.

We assess our portfolio against these scenarios by translating changes in the energy system, economy and physical impact into impacts on asset values drawing on selected data provided by Planetrics[1], a Mckinsey & Company solution. Planetrics modelling considers a range of physical and transition risks, which are disaggregated into impact channels. This is supplemented with internal modelling across our property portfolio. Further information can be found in our latest Climate report.

1. We Rothesay are solely responsible for scenario selection, all assumptions underlying such selection, and all resulting findings, and conclusions and decisions. McKinsey & Company is not an investment adviser and has not provided any investment advice.

Non-Financial and Sustainability Information Statement continued

Our risk management approach

Our climate risk management approach is fully embedded within our Risk Management Framework as part of a holistic approach for the identification, measurement, and monitoring of risks.

To support this, Rothesay has an ESG team, including dedicated ESG analysts, to support the analysis of climate issues and facilitate the embedding of climate-related considerations across the business.

Rothesay's approach is set out in our Risk Management Framework and our Responsible Investment Policy. It requires the application of clear risk management processes at the point of asset purchase and throughout the duration of all our investments. This includes, where applicable, any exclusions as outlined later in the strategy section. We continue to develop, and quantify where possible, our assessment of these climate risks.

Our process for the identification, assessment and management of risks relies on a broad range of sustainability factors. From a climate perspective, our framework considers physical, transition and liability climate risks. Climate risk factors can materialise through any of our key risks and so climate is seen as a cross-cutting risk, though the channel through which its effect is greatest is credit risk. We also outline our management of sustainability risks within our ORSA. Two of our Key Risk Indicators (KRIs) relate to the carbon intensity of our portfolio, including managing towards a 20% reduction in the carbon intensity of our publicly traded corporate debt by 2025. This information is included within our Management Information which is regularly shared with management, the Executive Risk Committee and the Board.

We manage our overall portfolio exposure to climate and broader sustainability risks by utilising both qualitative and quantitative metrics. These include quantitative indices (e.g the carbon intensity of the portfolio) which we monitor at portfolio, sector and individual issuer level. We also manage our climate risk exposure at the issuer level by assessing ongoing developments in their climate risk management strategy and performance against target metrics, including carbon intensity and emissions reductions. This aligns the risk management of our investments for the benefit of our policyholders, with real-world decarbonisation.

We take a materiality-based approach to the management and prioritisation of climate-related risks. Heightened scrutiny, based on clear materiality thresholds, is triggered as the associated climate risk or opportunity increases to ensure focus is on those entries with the greatest likelihood of having a significant impact on our exposures to risk. From a climate perspective, our focus is on financing the transition to net zero by preferentially investing in entities with clear transition plans and which are instrumental in effecting real-world emission reductions. Where climate issues are current and deemed significantly material, issuers may be added to the Credit Watchlist, as per the existing risk framework.

Metrics and targets

To track our progress on transitioning our investment portfolio to net zero, we have a number of additional targets in place:

Net zero by 2050

Rothesay is committed to transitioning our investment portfolio to net zero greenhouse gas emissions by 2050, aligned with a maximum temperature rise of 1.5°C above pre-industrial levels as outlined in the Paris Agreement.

20% reduction by 2025

We aim to reduce the Scope 1&2 Carbon Intensity of our total portfolio by 20% over the five years beginning with the baseline set in 2020. We also aim to reduce the Scope 1&2 Carbon Intensity of our publicly traded corporate debt sub-portfolio by 20% over the same timeframe.

Low-carbon sectors

We seek to partner with governments and industry to identify ways in which we can increase our lending to sectors which support a low carbon economy.

50% reduction by 2030

We have made a new commitment to a 50% reduction in the Carbon Intensity of our publicly traded corporate debt by 2030.

Engage with 20

Commit to engage with at least 20 issuers contributing at least 65% of our Carbon Intensity within our corporate bond sub-portfolio.

Target	Base year value (2020 unless stated otherwise)	2022 value	Change vs base year (%)
20% reduction in the carbon intensity of our total portfolio by 2025	211[2]	183	-13
20% reduction in the carbon intensity of our publicly traded corporate debt sub-portfolio	222[3]	165	-26
1.5°C portfolio temperature alignment	2.7°C (2021)	2.6°C	n/a

2. These numbers were rebased in our 2021 ESG report due to data adjustments. Details can be found in our 2021 ESG report.
3. These numbers were rebased in our 2021 ESG report.

Non-Financial and Sustainability Information Statement continued

Carbon Intensity

Last year we undertook an exercise to measure carbon intensity across as much of the portfolio as possible, including all issuers in high emissions sectors.

For our portfolio, as constituted at year end 2022, the average Carbon Intensity (CI) was 183 tCO_2e/m USD revenue, a reduction of 7% from our portfolio CI at year end 2021. One of our key objectives of our engagement approach is the drive for increased and improved climate disclosure from our investees. As such, we are happy to have seen a 3% improvement in our overall portfolio coverage from last year.

We track the CI of both the whole portfolio and publicly traded corporate debt sub-portfolio defined as listed issuers with an ISIN and reported data in the Corporate category (excluding Secured Financing) together with the REITs component of the Property category. This sub-portfolio has a size of £14.6bn and represents 29% of the full portfolio.

One of the key commitments we set out in our first ESG report was to see a 20% reduction in the carbon intensity of this sub-portfolio by 2025. Supported by active portfolio management and issuer intensity reductions, we are currently ahead of our carbon intensity target level. The year-end CI value is 165t CO_2e/m USD revenue versus a 2025 target of 177.

While a revenue-based measure of carbon intensity allows for comparisons among the broadest range of issuers, it has the drawback in inflationary times, of flattering the steepness of emissions declines as revenue increases become disconnected from production increases. We actively monitor the impact of investment activity decisions and issuer actions on CI reductions, and with an eye on our 2025 targets, we have developed weekly internal reporting to follow the evolution of the Carbon Intensity as the portfolio's composition varies, whether due to trading or to changes in market levels for FX and interest rates.

Financed emissions

Tracking the share of issuer emissions for which Rothesay can be deemed responsible by virtue of the portion of their balance sheet we finance is at first sight more useful. For the financed emissions of a growing business like ours, however, one needs to try to separate the effects of issuer activity from that of additional assets. The obvious way to do that is to track financed emissions per unit invested (often called Carbon Footprint) though we note that this also fails to provide a pure measure of decarbonisation, given the market value denominator is affected by wider factors such as interest rates and currency movements. We also lend to several issuers for whom it is easy to obtain revenues but not possible to find the size of the full balance sheet and so lower coverage is a shortcoming. Further information on our Financed emissions can be found in our Climate report.

Portfolio temperature alignment

Where data is relevant and available, we use temperature alignment scores to provide an additional dimension to our understanding of the climate characteristics of our holdings. This score is an all-encompassing forward-looking metric that gives consideration to the expected trajectory of a company's emissions from now to 2050 and compares it with a 1.5°C carbon budget that has been allocated to the company based upon both the difficulty of decarbonising its sector and the current scale of production of the company. The greater the margin by which the company is expected to exceed its budget the more its temperature score exceeds 1.5.

Although very promising in theory, these types of scores are still in their infancy and, given their complexity and reliance on underlying data that may lack comprehensiveness and quality, should be treated with caution. Not only is the budget allocation somewhat subjective, but so is the estimation of the emissions trajectory which depends heavily on the reliance placed on any corporate targets being met. Further information on our Portfolio temperature alignment can be found in our Climate report.

Broader metrics

	%MV Allocated
Exposure to Material Climate Sectors	9.3%
Climate Opportunity Financing	1.2%
SBTi Alignment (commitment and/or approved targets)	51% (corporate portfolio)
SBTi Alignment (approved only)	40% (corporate portfolio)

Our operational footprint (Streamlined Energy and Carbon Reporting)

The table below summarises Rothesay's energy consumption, CO_2 emissions, and own operations emissions intensity metrics for 2023 and a comparison to the identical metrics from 2022 and 2021. The scope of this reporting covers all Rothesay's UK entities, reflecting Scope 1 and 2 emissions, as well as Scope 3 (energy use and related emissions from business travel in rental or employee-owned vehicles where they are responsible for purchasing the fuel). This reporting has been compiled in line with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (Revised 2014), utilising the emission factors from the UK Government's GHG conversion factors for Company Reporting in 2023. Under the scope of the SECR requirements, the reporting below does not include Rothesay's US and Australian entities, but we will report on these operations in our annual Climate Report to be published later this year.

From our standpoint, the market based metric is the most accurate representation of our emissions, providing a true reflection of the actual emissions associated with the electricity consumed by Rothesay. As indicated in the table below, employing the market-based metric reveals a continuous reduction in both our total CO_2e emissions and emissions intensity since 2021. Scope 1 emissions show a distinct decrease and concurrently, our scope 2 emissions remain at zero. This is because the electricity for our UK offices is consistently sourced from a Carbon Trust-certifed supplier, guaranteeing a 100% renewable energy supply. To provide a comprehensive comparison, we have included location-based metrics, which uses the average emissions associated with the electricity of the grid of the UK.

Rothesay remains committed to taking steps to minimise our emissions. When travelling for business reasons, employees are encouraged to use methods of transport that carry low emissions per kilometre, such as public transport. We also endeavour to support our employees in reducing their own emissions and have offered popular, tax-efficient electric car leasing for several years. In addition, we also have our Cycle to Work scheme, providing financial assistance for employees to purchase a bicycle and safety equipment.

		2023	2022	2021
Energy consumption (kWh)		**1.440m**	1.138m	1.215m
Total CO_2e emissions (in tonnes)	Market based	**53**	59	112
	Location based	**291**	216	240
Scope 1 CO_2e emissions (tonnes)[4]		**51**	56	111
Scope 2 CO_2e emissions (tonnes)[5]	Market based	**—**	—	—
	Location based	**238**	158	129
Scope 3 CO_2e emissions (tonnes)[6]		**1.9**	2.7	0.4
Carbon dioxide emissions intensity				
Total CO_2e tonnes per FTE	Market based	**0.1**	0.2	0.3
	Location based	**0.7**	0.6	0.7

4. Scope 1 covers CO_2 emissions occurring from sources owned or controlled by Rothesay (e.g. gas). These are primarily calculated using meter readings, with the Area method used to estimate Rothesay's contribution for communal office areas as detailed by the Climate Registry's General Reporting Protocol v3.0.
5. Scope 2 covers CO_2 emissions from the generation of electricity purchased by Rothesay. These are primarily calculated using meter readings, with the Area method used to estimate Rothesay's contribution for communal office areas. Location-based values are estimated using conversion factors from the UK Government's GHG conversion factors for company reporting in 2022.
6. Scope 3 covers CO_2 emissions occurring from business travel in rental or employee-owned vehicles where Rothesay is responsible for purchasing the fuel. These are estimated from total mileage by using the "Average car" and "Petrol" conversion factors from the UK Government's GHG conversion factors for company reporting in 2022.

Securing positive outcomes for our stakeholders

We are dedicated to protecting the pensions of our policyholders and delivering positive outcomes for all our stakeholders, including our customers, our suppliers, our people, our community and our investors.

Our customers

Protecting pensions for 934,611 people.

Protecting the pensions of our policyholders and ensuring that we pay all benefits as they become due is something we take very seriously.

Simply paying the right benefits on time, however, is not enough. We combine this with demonstrably excellent customer service, focused on real care in every detail.

Genuine service excellence

94% positive

Policyholders rating our service 'good' or 'excellent'

20 seconds

80% of calls to our contact centres are answered in 20 seconds or less

Our customers continued

Consumer Duty

Rothesay satisfied its obligations in readiness for the implementation of the FCA's Consumer Duty by 31 July 2023. In preparation for the new regulation, we reviewed our processes to ensure policyholders get the right level of detail at the right time. For some key communications we simplified letters and introduced infographics to help policyholder understanding. We also developed a new set of style guidelines for our third party administrators (TPAs) to ensure a consistent 'look and feel' across all our communications.

In addition, we worked alongside our mortgage lending partners as they implemented Consumer Duty for the benefit of their customers.

Terry Miller, an Independent Non-Executive Director and Chair of our Board-level Customer Conduct Committee (CCC), is our Consumer Duty champion.

Supporting vulnerable customers

Identifying and finding ways to help our vulnerable customers is a priority for us. We have continued to develop our model and have changed the way we gather information in order to ensure we are removing any barriers and providing the best possible service. Our call handlers focus on listening to policyholders' needs and offering them a service enhancement that is right for them such as Braille, audio files, large font, telephone contact only, passwords on account or simply speaking slowly and clearly.

In September we provided further face-to-face training to all our TPA teams to encourage and empower them to identify and support vulnerable customers. We understand that policyholders will need help in a wide range of scenarios, and have created a culture within our TPAs where they are encouraged to speak up and share ideas with us so we can continually evolve our service offering.

Partnering with external organisations

Working with other organisations also helps us to continuously improve the service we provide to our vulnerable customers and ensure we are following best practice. We are actively engaged with the Association of British Insurers (ABI) and are a member of their Vulnerable Customers Working Group. We also work closely with Alzheimer's Society, Cruse Bereavement Support and Tax Help for Older People, and are a member of the Death Notification Service, a free customer-facing service that is intended to make the death notification process easier during a difficult time.

The Alzheimer's Society's Dementia Friends programme is an initiative intended to change people's perceptions of dementia, and this year they provided training sessions across the business, including to our Board. They are also working with us to independently review our power of attorney process and our policyholder websites.

Cruse Bereavement helped us develop a new suite of bereavement communications including a new booklet called 'Grief and you' which we now issue at the beginning of the bereavement process.

Robust service delivery

Our commitment to deliver excellent service continues to be recognised by the Pension Administration Standards Association (PASA), the independent body dedicated to driving up standards in pension administration. We are also a member of the Institute of Customer Service, an independent, professional body for customer service. Not only do we ensure that all of our processes are designed to achieve good customer outcomes, we also seek to exceed the standards and guidelines set out by the FCA, the Pensions Regulator and the ABI.

In November, Rothesay was awarded the Impact on Customer Experience Award at the Pensions Management Institute Pinnacle Awards.

We continue to follow a strategic outsourcing model and partner with industry experts for the provision of administration services – WTW, Mercer (Mercer's UK pension administration business transferred to Aptia UK Limited on 1 January 2024) and Capita Pension Solutions. Through our TPA partners we have over 280 dedicated staff providing our core services, including administration, payroll and UK-based contact centre services. We work in partnership with our TPAs to make them feel part of the Rothesay team and also ensure customer service is front and centre of their minds.

In May, we were informed that the personal data of approximately 50,000 Rothesay policyholders was impacted by a cyber incident at Capita. All impacted individuals were contacted by Rothesay to reassure them that their pension policies and payments were unaffected and to provide them with guidance on what steps they should take to protect their data. They were also offered access to a specialist fraud monitoring service, free of charge.

We worked very closely with Capita to understand how its cyber incident occurred, what steps it subsequently took to confirm its systems are secure, and what improvements it has made to its information security controls. We also carried out a wider internal review to ensure that lessons learnt were shared with our other strategic business partners.

Service levels and KPIs

We manage our administrators through a series of proven and robust governance processes, including service level agreements which are amongst the most challenging in the industry. We constantly measure performance for quality and accuracy, and strive for the end-to-end process to be as short as possible. Due to a cyber incident in March at Capita, one of our pension administration providers, their SLAs dipped for a few months meaning our average across our three providers this year was 84%. However, overall customer service remained very good and excluding the three month period following the cyber incident, our average SLA was 92%.

Customer feedback

Our administrators escalate any complaints to our Operations team immediately for review. Where policyholders express dissatisfaction or make complaints, we undertake a full root cause analysis, and this helps ensure we learn from each and every one. Our complaint levels continue to be low with just 1.94 complaints received per 1,000 policyholders **(APM)** (2022: 1.37 complaints per 1,000) of which 0.69 complaints per 1,000 policyholders were upheld in the customer's favour **(APM)** (2022: 0.47 complaints per 1,000). The slight increase this year was largely attributable to an inherited backlog of work in relation to a material administration migration to Rothesay (and the cyber incident mentioned above).

Data and customer experience

In order to manage existing and future business without compromising our high service standards and our continued commitment to our policyholders, it is important that we continue to invest in automation and efficiency projects. By evaluating policyholder data at a complete level, we are also able to facilitate best practices in administration. This year, with a refreshed Consumer Duty lens, we have focused on several datasets including aged suspension cases, deferred policyholders past their retirement date and policyholders with multiple policies across our three TPAs. Identifying this membership allows us to deliver an efficient and consistent service for our policyholders.

Governance and oversight

The Customer Conduct Committee (CCC), which is a full Board level committee, is focused on ensuring good outcomes for customers, clients and counterparties, as well as overseeing Rothesay's approach to regulatory conduct. In doing so, the Committee is supported by the Executive Customer Committee (ECC) which receives detailed reporting on all service levels and complaints, customer initiatives and regulatory requirements.

Rothesay policyholders*

	2023	2022
Number of policyholders at 1 January	**825,466**	837,721
Increase in respect of new business	**133,127**	29,751
Reduction in respect of deaths and member options	**(23,982)**	(42,006)
Number of policyholders at 31 December	**934,611**	825,466

*Policyholder estimates are based on analysis of data available at end of November. Part of the reduction in respect of deaths and member options for 2022 reflects late reporting of 2021 movements.

> I am relieved that my pension has ended up with Rothesay and that they have clearly continued to diligently monitor the situation and then acted, without any prompting or claim, when it was right to do so. I can't tell you how much this means to my wife and me.

A quote from a policyholder of the Uniq pension scheme in response to Rothesay's reaction to the PPF vs Hughes court ruling which found PPF caps unlawful. Rothesay believed that the right thing to do was to broadly follow the approach that the PPF themselves were taking and made further uplifts (in some cases significant) to our policyholders who would otherwise have been impacted had the scheme ended up in the PPF.

Pension trustees

Rothesay provides pension de-risking solutions to the trustees of over 200 pension schemes.

2023 has been an inflection point in the bulk annuity market. As is widely understood, scheme funding levels improved dramatically with the shift in market conditions over 2022, with many schemes now in surplus. Others have seen a material acceleration in their long-term journey plan, often knocking several years off their expected timeline. This has resulted in two fundamental shifts:

- Firstly, more schemes are seeking to secure all of their liabilities via a bulk annuity. As a result, the market for pensioner buy-ins, which used to make up a large majority of transactions, has slipped from over 55% in 2020 to less than 5% this year.[1]
- Secondly, we have seen an increase in sponsors looking to bring forward their already committed future annual contributions so as to secure the risk now, rather than using these purely just to meet their obligations to improve funding levels. We have seen record-breaking cash contributions into schemes in order to secure these risks.

An associated issue this has brought about is the increased weighting to illiquid assets in schemes' investment portfolios. Whilst many schemes are still able to resolve this through the use of deferred premiums, we have been asked by many trustees to assist with this issue. To address this need, Rothesay has established an Illiquid Asset Transition team based in London and New York. This team is focused on providing illiquid asset solutions tailored specifically to each scheme's needs and asset holdings. Over the course of 2023 this team analysed over 90 illiquid asset positions.

Whilst 2023 was a record year for us (when normalising for interest rates), we have been able to provide quotes to 25 schemes with total liabilities exceeding £30bn and support the marketplace with training and development through:

- Holding our second networking event focused on the next generation of the bulk annuities market. This was aimed at the more junior associates in the bulk annuities market, those who will drive it forward over the coming years.
- Writing articles for Pension Management Institute's magazine "Pensions Aspect" and the AMNT magazine on a scheme's journey to buy out and challenges schemes may face in a busy marketplace.
- Commissioning an independent survey of de-risking consultants who had secured their clients' liabilities with Rothesay, where we gained invaluable insight and feedback.
- Participating in over 120 hours of conferences, webinars, etc. on the topic of how to best engage with the bulk annuity market.

During 2023, the Transition team has worked closely with a wide range of trustees and their administrators to support and guide schemes through their data cleanse obligations, as they prepare for buy out, and the possible journey to eventual scheme wind up or into long-term buy-in.

Twelve new BPAs have been signed this year, securing benefits for over 133,000 pension scheme members. A further nine schemes have successfully completed their data cleanses, seven of which also decided to proceed to buy out.

Rothesay's Transition team has a wealth of experience to draw on across aspects including actuarial, pensions legislation, administration platforms, scheme wind-up, data analysis, customer service and general administration. It is this extensive experience together with our participation in detailed planning meetings with Trustee teams that facilitates the understanding and resolution of key issues on individual schemes and leads schemes to a successful risk transfer process with Rothesay.

1. LCP: Insurance company data. *H1 2023 also includes publicly disclosed deals to 6 October 2023.

Our strategic business partners

Outsourcing model

As noted previously, we follow a strategic outsourcing model for the provision of administration services. Key to delivery of excellent customer service is our close working relationship with our third party administrators, WTW, Capita Pension Solutions and Mercer. Mercer's UK pension administration businesses transferred to Aptia UK Limited on 1 January 2024, as a result of this Aptia, have been onboarded by Rothesay as a new critical vendor.

We also work closely with each of our lifetime mortgage servicers and our new fixed-for-term mortgage partners.

Other strategic business partners include Northern Trust, for middle office functions, and Goldman Sachs, which provides technology services. We are making good progress in migrating these technology services to Rothesay in a project which is expected to take several years.

The Board receives regular reporting on the performance of all of Rothesay's outsourcing partners and on progress with the development of Rothesay's technology platform.

Reinsurers

As previously noted, we have entered into additional longevity reinsurance arrangements in 2023. We now have reinsurance coverage **(APM)** of 87% (2022: 89%).

The long-term nature of these reinsurance agreements means that developing a strong working relationship with our reinsurance counterparties is important. We administer reinsurance arrangements in-house which is operationally efficient and allows us to build and maintain strong working relationships with our reinsurance counterparties.

Other suppliers

Oversight

The Business Controls Committee, which is chaired by the COO, is responsible for approval, implementation and monitoring of the Group's vendor management policy. The policy is designed to ensure that the legal, regulatory, information security, reputational, commercial, operational and financial risks associated with third party relationships are appropriately managed.

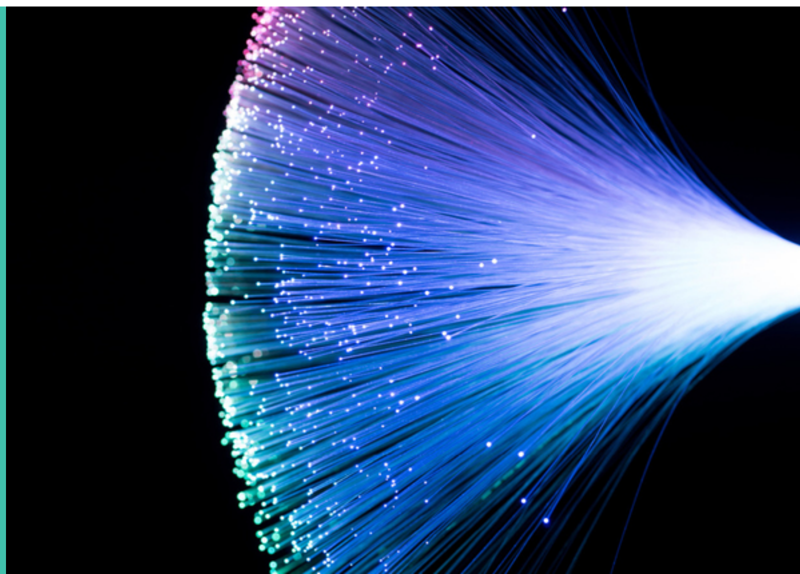
Prompt Payment Code

Rothesay is a member of the Prompt Payment Code. Rothesay aims to pay suppliers promptly, with the average time taken to pay invoices in 2023 being 16 days (2022: 15 days) and 90% being paid within 30 days (2022: 95%).

Modern slavery

As required by the Modern Slavery Act 2015, on 31 May 2023 a statement was published on Rothesay's website describing the steps taken by Rothesay to ensure that slavery and human trafficking is not taking place in any part of our business or in any of our supply chains.

The statement also notes that we expect our suppliers to ensure fair employment practices. For example, we require our cleaning suppliers to pay the personnel who work at our premises a salary which is equivalent to at least the London Living Wage.



Our people

The commitment and quality of our people are integral to Rothesay's success.

We focus on nurturing our unique culture, and investing in and engaging with diverse, talented people.

Our culture

We are committed to maintaining the highest standards of integrity, transparency and accountability. That commitment is reflected in our cultural values and the way in which we live those values in our performance, behaviours and our everyday decisions and interactions.

We make our values visible and known to all employees in line with best practice. We also extend this high standard of expectations to entities with whom we work, across our supply chain.

Our values

Original & Creative	Collaborative & Diverse
Dedicated, Genuine & Accountable	Meticulous & Fast-paced

Growing our talent

Our business has continued to grow and as at the end of 2023, Rothesay had 460 permanent employees, an increase of 16% from 2022.

To meet the demands of a growing business, we have continued to recruit, with particular focus on the following areas:

- Technology – to support the re-platforming of our risk management systems and to ensure Rothesay is at the leading edge of automation.
- Pricing – to increase the capacity of our new business underwriting team.
- Risk and compliance – to support the sustainable growth of the business.

We continue to promote internal opportunities and encourage internal mobility across the business, supporting our first international moves from London to New York.

Year-on-year increases in graduate numbers continue to strengthen our capability pipeline for the future. We also sponsor a number of apprentices, internships and work experience programmes on an annual basis.

As part of our work experience programme, we offered expenses paid places to pupils from Newham Collegiate Sixth Form Centre, a local school serving pupils in a disadvantaged part of east London.

Engaging our employees

In 2023, we continued to focus on strengthening our internal communications capability and delivering events to increase the ways we bring our employees together and share key business updates. We have continued to ensure that there is a regular communication from all parts of the business. Our monthly employee newsletter keeps people connected and we have elevated our employee Town Halls into events staged at the British Museum. We have also introduced lunch with the CEO events, giving small groups of employees an opportunity to pose questions and talk directly with our CEO, Tom Pearce. Ideas and feedback are captured so that they influence future actions in support of our people strategy. We also introduced a new Rothesay Speaker Series for all staff with speakers including Lord Mervyn King and Lewis Pugh.

94%
Employment response rate
(2022: 94%)

90%
My manager treats people fairly
(2022: 86%)

Our people continued

In 2023, our annual employee survey was again run using an external consultancy in order that we can use benchmarking data to better interpret the results. We received an outstanding response rate of 94% (2022: 94%), and the results showed an increase in engagement score to 78% (2022: 72%) with the data highlighting excellent progress across all key areas of the survey. Our focus on serving the needs of our customers is reflected in the survey results, with 87% agreeing with the statement "We are responsive to the changing needs of our external customers" (2022: 83%). The results were discussed with the Board and we have identified areas for continued improvement in 2024.

Our office space in London is configured in a way that means that all our UK-based employees can work collaboratively together in one location. This prevents functional silos – an integral part of the Rothesay culture. The Chairman, members of the Board and Executive Management have frequent, informal interaction with Rothesay employees. Company provided breakfasts and evening get-togethers are regularly held throughout the year, supporting our cultural focus on connectivity and internal networking.

Employee turnover has decreased to 6.78% (2022: 9.5%), which is low compared to the market.

Investing in our people

Rothesay is committed to employee development. We invest in employees gaining a range of professional qualifications and we offer a comprehensive learning and development programme covering both technical and professional skills. Our people are encouraged to own their career development and select their learning activities from the programmes which have been tailored to Rothesay's requirements. This includes a compulsory ESG training module for all employees to support business-wide understanding and engagement with Rothesay's ESG strategy. We are also pleased with the success of our Coaching Clinics, where any employee can book a single or a series of sessions with our professional coaches, at a time when they need additional support either with a personal career question or with a task that is in focus. This year, we added Project Management Fundamentals to our portfolio to build project management capability within our team. All our learning offers are delivered through our trusted external development partners.

To support career progression, our Manager Fundamentals Programme runs twice a year and individuals join a cohort to complete a series of modules on best practice that also includes individual coaching. All our managers are expected to provide employees with continuous feedback and coaching conversations throughout the year. Mid-year and end-year reviews provide an opportunity for employees to reflect on their achievements, give and receive 360-degree feedback, including on ways in which they have helped support ESG initiatives and targets, and to set objectives to drive their career forwards.

Our one-year graduate programme provides junior hires with the training, support and responsibility required to allow them to contribute meaningfully to the business from day one.

Employee wellbeing

Rothesay understands that the wellbeing of our people has a direct impact on our performance. We therefore offer benefits to support the physical, mental and financial wellbeing of our employees and their families. Health and wellbeing benefits include private healthcare for employees and their families and their partners, subsidised gym membership, fertility support, free flu jabs and free access to Headspace, an app which provides meditation and mindfulness tools. We also introduced new critical illness and dental benefits that went live in 2023.

Through our Employee Assistance Programme, employees have access to an extensive education hub and phone support on all wellbeing issues. Rothesay also provides free membership to Work Life Central, another education and webinar platform to help working parents and carers.

In our office, our exclusive gym is available 24/7 to all employees and in partnership with our fitness provider. Employees may use their gym subsidy to attend regular classes and personal training sessions, and book massages. Our workstation assessments, and use of ergonomic chairs and stand-up/sit-down desks ensure employees can tailor their work environment to meet their needs. We also provide fresh fruit for free every day, healthier snacks such as sugar-free and plant-based options in vending machines, and non-dairy milks in the coffee machines.

We have 13 employees externally trained as Mental Health First Aiders (MHFA) by MHFA England. They sit across our business and are available to everyone as point of contact for discussions on all mental health issues, whether it be something an individual is personally experiencing or whether they have concerns for someone else. Trained MHFAs are enabled to have an initial conversation with a colleague and guide them to the relevant help that they need.

Diversity and inclusion

As a founder-led business, Rothesay has been committed to creating a culture that actively values difference from day one. Our policies are designed to ensure that our people are not to be disadvantaged in any way as a result of their background, beliefs or situation including but not limited to the protected characteristics. We recognise that people from different backgrounds and experiences can bring valuable insights to the workplace and enhance the way we work.

We have formed a diversity and inclusion (D&I) Executive Working Group. This working group takes senior responsibility for forming and delivering our D&I strategy as we go forward. In addition, Board Director Angela Darlington is now Rothesay's first independent Board sponsor for D&I. Our D&I initiative encourages employees to share their views on D&I within Rothesay and to provide more detailed personal information so that we can better track our progress in promoting D&I within our business. Part of this promotion is in the form of internal D&I-themed forums which seek to promote inclusion and highlight issues facing minority groups.

In the 2023 employee engagement survey, 85% of our employees agreed or strongly agreed with the statement “My co-workers respect my thoughts and feelings” (2022: 82%), 90% agreed with the statement “My manager treats people fairly” (2022: 86%) and 79% agreed with the statement “We have a work environment that is accepting of diverse backgrounds and ways of thinking” (2022: 79%).

We encourage all employees to provide us with their D&I data on a confidential basis so that we can track progress in relation to diversity and inclusivity over time. Such data includes gender, race, sexual orientation, religion, nationality, disability, whether the person is a carer and socio-economic background.

We continue to look at ways of identifying a more diverse range of talent for the long term. We believe in taking practical steps to drive this outcome, and to regularly communicate our commitment to supporting all colleagues. During 2023, we again participated in the #10,000BlackInterns programme. We have introduced a specific emergency back-up family care benefit and formalised a neonatal leave policy to support employees in times of need.

We offer training and support to new parents and their managers and all employees taking extended parental leave are offered one-to-one coaching to support their return to work.

In the case of workplace issues, our grievance procedure is designed to encourage a fair, consistent and speedy approach to resolving matters. Where issues cannot be dealt with through informal discussions with HR or managers, formal procedures ensure that grievances can be resolved in a swift and satisfactory manner.

Gender pay gap

The table below provides a summary of our gender pay gap data:

	2023 Mean	2023 Median	2022 Mean	2022 Median
% by which hourly pay is lower for female employees than male	**20%**	**15%**	23%	23%
% by which bonuses are lower for female employees than male	**61%**	**26%**	51%	44%

The table shows some improvement between 2022 and 2023 in the hourly pay percentage and overall our four year trends remains positive. We are also proud of our 40% female Board representation, compared to our overall Company female representation of 32% which reflects improved participation of women at the highest level of our Company's decision making. In common with many other organisations, our gender pay gap arises as a result of having a higher number of men in senior roles than women. Low turnover of staff and three-year deferred pay structure means that organic progress in closing the gap is likely to take time. For a more detailed discussion of this topic and information on the actions we are taking to address it, please see our separate Gender Pay Gap Report when it is published.

Q&A

Lorna Tennent, General Counsel and Diversity & Inclusivity Executive Working Group member, provides insights into Rothesay's culture and approach to D&I.

Q.

Please tell us about your career journey and in particular, how has this driven your commitment to diversity?

A.

I studied law and followed that up with an initial career as an M&A lawyer in a 'magic circle' law firm. I'm very goal-orientated so starting as a trainee and working towards the next role… associate, managing associate, counsel and then partner… really appealed to me. However, I became more acutely aware of the scarcity of female role models from my socio-economic background as I worked through each of those goals. I grew up and went to school in a small town in the north of Scotland and didn't know anyone who had gone on to be a lawyer! One of the reasons why Rothesay was one of my favourite clients (before it was my employer) was the fact that nobody seemed to care where I was from or what my background was – all that mattered was that I gave good advice. So that's one of the things I really want to encourage as part of the D&I Committee, actively valuing difference and the contributions that can be made by people, whatever their story may be.

Q.

You joined Rothesay at the start of this year, how's your experience been?

A.

So positive! Rothesay has such a high performance culture and it would of course be impossible to sustain this without its incredible people. I love our focus on getting the right people into the business, to do the right job and get to the right answer regardless of what the problem is. Rothesay is a very solutions-orientated organisation and we are very entrepreneurial in our approach to pursuing those solutions so I've really enjoyed working with both my own team and other teams across the business in a really open and ego-free way – everyone working together to achieve for the business.

"I want to encourage actively valuing difference."

Lorna Tennent
General Counsel and Diversity & Inclusivity Executive Working Group member

Q.

What do you think are the benefits of working at Rothesay?

A.

I had assumed, quite wrongly, that the benefits package at Rothesay, a mid-sized firm, versus at a larger organisation, wouldn't be as comprehensive but in fact the opposite is true. The benefits package at Rothesay is much more tailored in a way which an organisation with more employees would find harder to do. The offering at Rothesay is very far reaching and based on direct feedback from employees and it is just so encouraging that employees feel empowered to make suggestions and to see these taken on board. This also applies to other offerings such as learning and development, and events where the training and speaker selection is more tailored to teams and the business, for example.

Q.

How has the diversity and inclusivity programme developed this year and what are your ambitions for the programme?

A.

For me, the stand out event this year was Black History Month. It was a brilliantly put together programme of activities and events from which I personally learnt a lot. It was really nice to have everybody together in the office, in a relaxed setting, learning about a really important topic. The fact that everything, the ideas, the organisation and execution were employee-led made the month extra special and as I look towards 2024, I really hope that we do more like this to mark and celebrate diversity in an educated way. I also hope that this will help us as an organisation to continue educating ourselves on the importance of difference, understanding how it might impact in the workplace and build on that sense of belonging everyone should have about where they work.

The community

Investment in the UK economy

Rothesay has invested £27.0bn[1] (2022: £23.8bn) in helping fund companies and projects that benefit the UK, such as transport, infrastructure, education and social housing.

Rothesay has been an active supporter of the Government's ambition to unlock greater investment in long-term assets to help drive the UK's economic recovery and believes that there is a substantial opportunity for annuity providers to do more in this space.

We actively seek out future opportunities to help finance reliable renewable energy projects and we are always willing to support the Government in its efforts to develop low carbon generation and infrastructure. We stand ready to fund projects that aid the transition to a low carbon economy.

In addition, by providing funding to back lifetime mortgages, Rothesay is helping older people access the equity in their houses, without the need for them to move. Mortgages are written with a no negative equity guarantee which means that borrowers don't have to worry about the liability growing above the value of the house.

1. The amount shown as invested in the UK economy is based on the current market value of the investments held. Such investments continue to represent around half our total assets under management.

Taxation

Rothesay's tax strategy is designed to ensure compliance with the tax laws of those countries in which Rothesay operates (primarily the UK). Any tax planning undertaken has commercial and economic substance and has regard to Rothesay's corporate responsibilities and brand and the potential impact on all stakeholders. We do not undertake planning that is contrived or artificial. Rothesay has zero tolerance for tax evasion of any kind.

Rothesay makes a significant tax contribution in the UK, with £434m remitted to UK tax authorities in relation to 2023 (2022: £387m). Rothesay had an effective corporation tax rate of 23.52% during 2023 (2022: 19.0%). The increase in Rothesay's effective tax rate has been driven by the increase in the UK rate to 25% from 1 April 2023. Other taxes include property taxes, employer payroll taxes and irrecoverable indirect taxes.

Taxes paid	2023 £m	2022 £m
Corporation tax	**106**	78
Other taxes	**31**	16
Taxes collected	**297**	293
Total remitted	**434**	387

Giving back

As we end 2023 Rothesay has set aside £7.7m to fund future charitable projects.

We established the Rothesay Foundation in 2020 with the aim of supporting organisations that seek to improve the quality of life for older people, helping them to live their lives in a happy, safe and fulfilling way. Following last year's successful 'Summer Cheer' campaign where the Rothesay Foundation gave £2m worth of Iceland Foods vouchers to pensioners living in need, The Rothesay Foundation has now launched a pilot with Age UK under which pensioners are provided with a free, confidential benefits check to ensure that they are claiming all of the benefits to which they are entitled (see case study).

Rothesay supports Tax Help for Older People, a charity service providing free, independent and expert help and advice for older people on lower incomes who cannot afford to pay for professional tax advice. We have also continued our relationship with the Alzheimer's Society, sponsoring their annual conference, sponsoring their Carer's guide, helping people living with dementia to complete lasting powers of attorney, sponsorship of NHS Continuing Healthcare appeal, matching donations to the charity and carrying out Dementia Friends training sessions for Rothesay staff, the Board and our TPAs.

On an annual basis we choose an employee-nominated Charity of the Year. In 2023, we chose to support My Name'5 Doddie Foundation. We encourage our employees to support charities personal to them through our matched giving policy, which gives everyone an annual matched allowance of £1,000.

In response to global conflict, we introduced an additional 4-for-1 matching for donations of up to £1,000.

In addition to the funds raised for the Charity of the Year, over £100,000 was given to a wide range of charities by our people, including through Give As You Earn and use of the Charities Aid Foundation (CAF). We are proud that so many people have engaged in fundraising and social events designed to give back to the community. We have increased the number of volunteer days employees can use to two, and in 2024 intend to partner closely with charities to give our people more opportunities to donate their time to the communities which matter to them.

We are a corporate partner of the British Museum and support a number of other charities.

£27.0bn
Invested in the UK economy
(2022: £23.8bn)

Case Study

Age UK benefits check service

As part of its commitment to helping older people in need, in 2023 the Rothesay Foundation has been funding a free and confidential benefits check service for Summer Cheer participants, provided by our charity partner Age UK.

This vital service will help Summer Cheer participants and other pensioners in need find out and receive which additional state benefits they could be entitled to. On average, an Age UK benefits check identifies an extra £5,000 that each person could be entitled to every year.

Mailings started in early June targeting Summer Cheer campaign voucher recipients in Liverpool who would be eligible for phone advice only; subsequent to this we have mailed more than 5,500 other recipients in the six regions identified.

2,400
benefits checks delivered to support older people

121
face-to-face sessions

£12m
of benefits identified

Adele completed a benefit check for a Rothesay hotline caller who lives in Liverpool and received the reminder letter. She was already receiving some benefits so didn’t originally think the benefit check would apply to her, but her daughter convinced her to just give us a call as she had nothing to lose. Whilst the caller is getting all the benefits she’s entitled to currently, if she applies for the care component of Disability Living Allowance then she’ll be entitled to much more including Pension Credit Guarantee Credit and all the facets that come with it. The caller was worried about reporting her increased care needs as she didn’t want to be moved to Attendance Allowance and lose her mobility element, but Adele was able to reassure her that this wouldn’t be the case and talked through a couple of the questions asked and the useful resources to help with the change in circumstances claim. At the end of the call she said “thank you so much, I can’t thank you enough for your knowledge and kindness.
I feel like a millionaire now!

Running a responsible business

Providing long-term pension security is at the heart of what we do.

As well as policyholders, Rothesay has responsibility to a number of other stakeholders, including suppliers, our people, our community, the regulators and our investors.

Stakeholder engagement and the way in which their interests have been taken into account by the Board in its decision making is described in the following pages.

The way in which the Board oversees the operations of Rothesay more broadly is covered in the Governance Report.

Section 172(1) statement

At each Board meeting, the Board considers the impact on stakeholders and the requirements of s.172 of the Companies Act 2006 when making decisions. The Company Secretary sets out the text of s.172 on every Board agenda.

Given the long-term nature of our business, the Board is very focused on the likely long-term consequences of decisions and believes that it has acted in a way that promotes the success of Rothesay. Our Corporate Social Responsibility policy describes the way in which Rothesay aims to engage positively with all our stakeholders - a key concern of the Board. By doing so, we also believe that Rothesay will achieve positive outcomes with respect to our ESG objectives.

Examples of key Board decisions and impact on stakeholders

Decision 1: **Decision to pay a dividend**	**Decision 2:** **Decision to apply to expand into two further floors of The Post Building**
The Board took the decision to approve and pay an interim dividend of 23p per share in Rothesay Limited.	The Board took the decision to take over the lease for levels 3 and 4 of The Post Building, an extra 44,000 square feet.
Taking stakeholder views into account **Our shareholders** Our two long-term shareholders, GIC and MassMutual, have invested in Rothesay's growth for the last 10 years and were pleased to receive a return on their investment. In addition to the significant surplus capital available to be reinvested into new business opportunities, the shareholders continue to provide Rothesay with their long-term commitment and support for the next phase of the Company's growth. **Our people** As employee shareholders in Rothesay Limited our people also received a dividend. **The PRA** Rothesay notified the PRA of their intention to pay a dividend from retained earnings. There was no objection raised. **Our customers** The Board ensured that Rothesay had substantial excess liquidity and surplus solvency capital following payment of the dividend, with pro forma solvency and liquidity metrics remaining far in excess of target operating ranges. Policyholder security remains extremely high following the dividend payment.	***Taking stakeholder views into account*** **Our people** The need for more space reflects our growth as well as our belief in exceptional value of people being together face to face and that being in the office at Rothesay is exciting, fun and conducive to doing our best work. The benefit of the additional space will allow teams to collaborate easily across the different parts of our business. **The community** By continuing to grow and encouraging all employees into the office we are supporting the local community.
Outcome The Board approved the interim dividend which was paid during October.	**Outcome** The Board approved the decision to take over the lease for two additional floors of The Post Building.

"The need for more space reflects our growth as well as our belief in the exceptional value of our people being together face-to-face."

Tom Pearce
CEO

Stakeholder engagement

Overview	Engagement	Outcomes
Our people The commitment and quality of our people are integral to Rothesay's success. Read more on page 78.	• Senior management and the Chairman have frequent, informal interaction with our people. • The Board reviews the results of our employee engagement surveys and the actions taken in response. • The Board oversaw enhancements to employee benefits.	• Rothesay's people have very high levels of engagement with 90% saying that their manager treats people fairly. • We were pleased to see excellent progress across all key areas of the survey including talent and staffing, leadership, diversity and inclusion.
Our customers Providing long-term pension security to our 934,611 policyholders is at the heart of what we do. Read more on page 73.	• The Customer Conduct Committee receives regular reports on customer service levels and complaints, and oversees customer interaction. • The Board discusses customer service issues and in 2023 was focused on Rothesay meeting the requirements of the Consumer Duty. • Directors and management have ad hoc meetings with pension scheme trustees throughout the year. • Terry Miller is Rothesay's Board-level Consumer Duty champion.	• 94% of policyholders rate our service 'good' or 'excellent'. • We were able to help 12 pension schemes to de-risk their liabilities in 2023.
Our business partners Our strategic outsourcing partners are critical to us delivering service excellence to our customers. Read more on page 77.	• The Board receives regular updates on the performance of our strategic outsourcing partners, who are monitored against defined KPIs.	• Our partners have continued to deliver excellent service to Rothesay and our customers.
Our community We invest over £27bn in the UK economy and make a significant tax contribution in the UK. We have established the Rothesay Foundation and support a range of charities. Read more on page 84.	• The Board has reviewed Rothesay's Corporate Social Responsibility policy. • The Board received updates on the activity of the Rothesay Foundation and members of the Board are trustees of the Foundation.	• We have put aside £7.7m for future charitable projects.

Overview	Engagement	Outcomes
Our regulators Having a transparent, open and proactive relationship with our regulators is important to the performance of the business.	• The Chairman and Directors have regular meetings with the PRA. We have regular ongoing interaction with the PRA on all material matters relating to the business, led by the CRO. • The PRA attends the Board as part of the Periodic Summary Meeting cycle. • The Board receives regular updates on regulatory compliance from the CRO and Chief Compliance Officer. • Rothesay has responded to a number of consultations, including HM Treasury's Review of Solvency II. • We engage constructively with the FCA on key regulatory initiatives and matters impacting customers. We do this both directly and via trade associations.	• Our regulators have been fully engaged with the approval of the full internal model.
Our reinsurers Our reinsurers help us to manage our balance sheet by allowing us to hedge longevity risk. Read more on page 77.	• The Board Risk Committee oversees reinsurance counterparty risk management and approves all material reinsurance transactions. • The Audit Committee receives a report from the Chief Actuary on Rothesay's reinsurance arrangements and strategy.	• Our reinsurers have provided a further £10.1bn of longevity reinsurance protection. • The reinsurers have also responded quickly in support of us underwriting new business.
Our shareholders Rothesay benefits from the support and commitment provided by its two long-term institutional shareholders.	• Each of the institutional shareholders is represented on the Board by two Non-Executive Directors. • Representatives of the shareholders attend the Board and other Board committees. • The shareholders receive regular management information.	• GIC and MassMutual provide Rothesay with exceptional long-term support. • The shareholders assist in the sourcing of investments, share best practice and provide longevity reinsurance.
Our bondholders Rothesay appreciates the support of our bondholders.	• Senior management meets with debt investors on a regular basis and makes presentations to groups of investors and analysts.	• We were pleased with the response from investors to the issuance of our Tier 2 note in May 2023.

Case Study

Supporting the future of British tennis.

Rothesay continues its multi-year partnership with the LTA, the national governing body for tennis in Britain.

Rothesay is the title sponsor of three of the summer's show piece grass court international tennis tournaments – the LTA's televised events in Nottingham, Birmingham and Eastbourne. Each year the three grass court events attract close to 100,000 attendees, with millions more watching live on television. The events are a showcase of international tennis in Britain, and they provide an opportunity for top British players, and emerging talents, to compete against the best players from around the world.

The partnership sees Rothesay continue as the LTA's exclusive pensions partner and focuses on promoting Rothesay's role in supporting the future of British tennis along with the LTA's vision to open up tennis to more people of any age, ability and background.

> We were delighted to work so closely again with Rothesay on the highly successful delivery of our events at Nottingham, Birmingham and Eastbourne this year. The Rothesay Open, Rothesay Classic and Rothesay International all saw record attendances and some fantastic performances from British and overseas players. In Nottingham we had the first all-British women's tour final since 1977, as well as Sir Andy Murray taking home the men's title. I'm pleased to say that through our partnership Rothesay policyholders were able to benefit from ticket access to all three events.

Gary Stewart
Head of Commercial LTA

Section
2

Governance

In this section

A robust governance framework helps ensure that we continue to provide pension security for our policyholders, value to our shareholders and positive outcomes for our other stakeholders.

Governance at a glance

Board highlights from 2023

Board meeting attendance

99%

2022: 96%

Average Non-Executive Director tenure

5.7 yrs

Board female representation

40%

2022: 31%

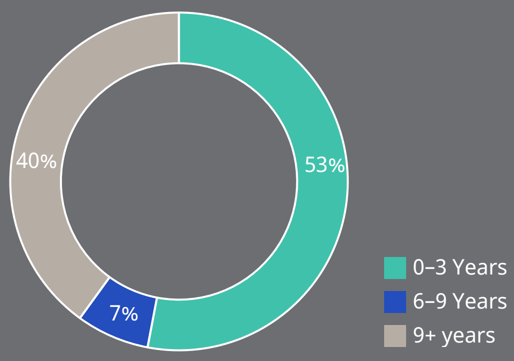
Independence of Board

53%

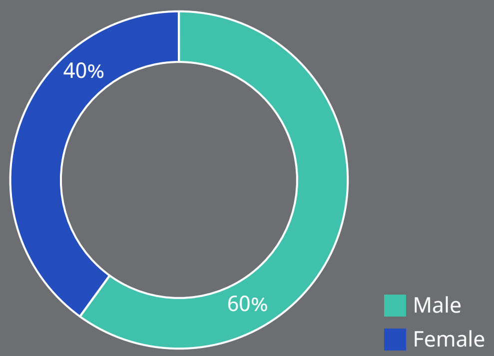
2022: 60%

Board composition dashboard

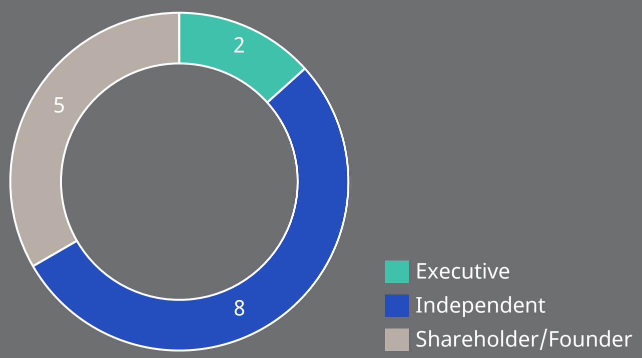
Board tenure



Gender diversity



Independence of Board

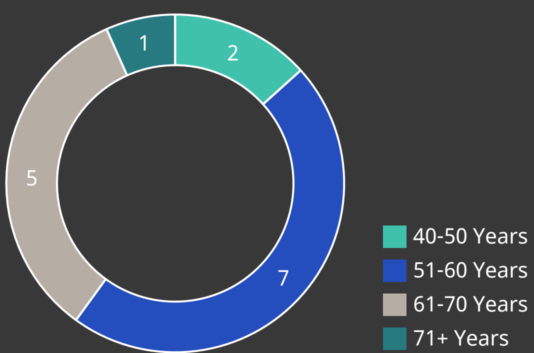


Directors with experience in

The Wates Corporate Governance Principles

For more information **see pages 104 and 105**

Directors' age range



A strong Board with an effective committee structure is a key component of the governance framework of Rothesay.

Naguib Kheraj
Chairman

Chairman’s introduction

Robust corporate governance

Corporate governance highlights

- Approval of the appointment of Graham Butcher as CFO and handover arrangements from Andrew Stoker.
- Approval of the payment of the dividend.
- Approval of the strategic business plan and ORSA.
- Approval of the 2022 ESG Climate and Sustainability Reports.
- Approval of the assessment that Rothesay met the requirements of the new Consumer Duty.
- Approval of the larger new bulk annuity and longevity reinsurance contracts.
- Approval of the issuance of Tier 2 notes.
- Approval to take on the lease of levels 3 and 4 of The Post Building.
- Review of the results of the 2023 employee engagement survey and discussion of management’s planned response.

Rothesay's governance structure means that decisions can be made quickly and efficiently whilst ensuring that there is robust oversight.

Board engagement
A strong Board with an effective committee structure is a key component of the governance framework of Rothesay. Our Board remains highly engaged; the continuing implementation of IFRS 17, discussion of the dividend and other one-off items necessitated a number of additional Board meetings/sessions during the year, and the level of attendance and contributions was very high. In addition, many issues were dealt with virtually by correspondence, enabling matters to be progressed efficiently and in a timely manner.

Shareholders

GIC and MassMutual each hold 49% of Rothesay Limited with the remainder being held by the Employee Benefit Trust, Directors, management and staff. GIC and MassMutual are two of the world's leading institutional investors and provide Rothesay with exceptional long-term support and a stable platform for growth in the future.

At the beginning of 2023, each of the shareholders appointed a second Non-Executive Director to the Board, with Arjun Gupta being appointed by GIC and Geoff Craddock by MassMutual. Both were already very familiar with Rothesay and bring extensive and relevant experience to the Board. Representatives of the shareholders beyond their appointed Directors are closely involved with Rothesay, and members of their teams regularly attend Board and other Board Committee meetings. The shareholders receive regular management information and their teams also interact directly with management. We believe that the enhanced interactions with shareholders are of benefit to the Company and help ensure that shareholders have good visibility, which aids the process of decision making when shareholder support is required.

The shareholders also support Rothesay in other ways, for example assisting in the sourcing and evaluation of investments, providing debt financing and providing longevity reinsurance.

The Shareholders' Agreement sets out a number of reserved matters, including:

- Changes to the rights of shareholders.
- Issuance of new equity or debt.
- Material changes to the business strategy of Rothesay.
- Material acquisitions or disposals.

The Board reviews and approves all related party transactions. For information on related party transactions see note I.4.

Board composition

Following her retirement as CEO in 2022, Addy Loudiadis continues to serve on Rothesay's Board as Founder Director, bringing continuity and allowing Rothesay to benefit from her experience and expertise.

In conjunction with his appointment to the role of Chief Financial Officer, Graham Butcher was appointed to the Board as an Executive Director on 1 October 2023. On 30 September 2023, Andrew Stoker stepped down from the Board.

In order to ensure that the Board continues to have a majority of independent Non-Executive Directors following the appointment by GIC and MassMutual of their second shareholder Directors and as certain independent Non-Executive Directors stepped down from the Board, new independent Non-Executive Directors have been appointed. These appointments broaden the knowledge and experience of the Board and further improve its gender balance. Lisa Arnold and Sophie O'Connor were appointed to the Board as new independent Non-Executive Directors on 10 July 2023 and 1 October 2023 respectively. On appointment, Sophie O'Connor also took on the role of Chair of the Audit Committee and Board Whistleblowing Champion. An extensive induction programme was organised for the new independent Non-Executive Directors who committed significant time to the process of learning about the business and operations of the Company.

On 30 September 2023, Bill Robertson stepped down from the Board. Bill joined in January 2016 and chaired the Audit Committee from May 2016 until he stepped down in September 2023. On 1 October 2023, Stan Beckers stepped down from the Board. Stan joined the Board in October 2017 and chaired the Board Risk Committee from December 2017 until July 2022. On 30 April 2023, Jackie Hunt also stepped down from the Board.

How the Board operates

The Board is led by the Chairman, Naguib Kheraj. Naguib was appointed to the Board on 1 October 2014 and became Chairman on 18 December 2017. Day-to-day management of Rothesay is led by Tom Pearce, the Chief Executive Officer. Tom is supported by the Leadership Team, more details of which can be found at www.rothesay.com.

Terry Miller was appointed as Senior Independent Director (SID) of Rothesay on 11 January 2024.

Chairman's introduction continued

The Board has responsibilities to shareholders, policyholders, the regulators, employees and other stakeholders for the overall performance of Rothesay. More information on stakeholder engagement can be found on page 88. The Board's role is to provide oversight and direction to the senior management team and to ensure that there is an appropriate risk and control framework for Rothesay.

The Board is supported by the Audit Committee, the Board Risk Committee, the Customer Conduct Committee, the Nomination Committee and the Remuneration Committee. Terms of reference for these Committees can be found at www.rothesay.com.

In the following sections of the Governance Report, the chairs of these Committees provide a report on activity in the year.

Rothesay Limited Board

Responsible for:
- Strategy and business plans
- Material transactions
- Acquisitions and disposals
- Capital management policy including dividends and debt

Nomination Committee

Responsible for:
- Reviewing the size and composition of the Board
- Board and Senior Manager appointments
- Succession planning

Audit Committee

Responsible for:
- Financial reporting
- Internal controls
- Internal and external audit
- Regulatory compliance

Customer Conduct Committee

Responsible for:
- Delivering good customer outcomes
- Regulatory customer conduct

Board Risk Committee

Responsible for:
- Risk appetite
- Risk management framework
- Ongoing monitoring and controls of risks

Remuneration Committee

Responsible for:
- Executive Director and other Senior Manager remuneration
- Remuneration policy
- Share incentive plans

How the Board spent its time in 2023

The Board met formally ten times during 2023, in addition to meeting on a number of other occasions on an ad hoc basis and dealing with several matters via email correspondence.

The Board agenda is set by the Chairman, in consultation with management, and generally includes:

- An update from the CEO on business performance, material new investments and liability transactions.
- Reports from Board Committee chairs.
- An update on Rothesay's financial performance and expenditure against budget.
- An update on risk and regulatory matters.
- Discussion of key initiatives such as regulatory projects, and ESG work.
- Development of Rothesay's IT and IS platforms.
- An update from the Company Secretariat on governance and administrative matters.

The Board is focused on ensuring that the growth of the business is appropriately controlled and received updates through the year on the steps being taken to strengthen control and oversight functions. The Board considered calibration of Rothesay's capital buffer risk appetite and solvency coverage target range.

The Board spent time in formal meetings as well as a separate session discussing IFRS 17, the new accounting standard for insurance. The Board also spent time in an ad hoc meeting discussing and approving the payment of an interim dividend.

Following extensive consideration at Board Committee level, the Board approved Rothesay's first Consumer Duty Annual Assessment.

The Board received regular updates on Projects Quest and Quest+ and other information technology and information security initiatives.

The Board considered Rothesay's reinsurance strategy on more than one occasion. The Board approved new pension risk transfer and reinsurance transactions and received an update and a debrief on processes relating to existing pension risk transfer transactions.

The Board received updates in meetings and by email on matters relating to its material outsourcers, including its Third Party Administrators; providing approval to proposals as and when deemed appropriate.

The Board received regular updates on the impact of market conditions on Rothesay's financial and liquidity position and detailed commentary on various markets (e.g. the pension risk transfer market and debt capital markets as they related to insurers). The Board also received regular updates from Rothesay's operations in North America and Australia.

The Board approved Rothesay's 2022 ESG reporting: a Sustainability Report and a TCFD Report.

The Board held a strategy off-site event during the year outside of the formal Board meeting schedule. The event included:

- Presentations from external speakers/panel sessions on:
  - Cyber-security
  - Longevity trends and healthcare
  - The economy, defence & security, and politics
- Discussion of the strategic business plan and projections.
- Discussion of business opportunities which could be considered in the future.
- Discussion of in-house administration opportunities.

Chairman's introduction continued

The discussion of the strategic business plan was focused on the pension risk transfer market and on the potential growth opportunity over the next three to five years. The Board was keen to ensure that Rothesay is appropriately positioned from both an operational and solvency perspective to capitalise on the opportunities that are likely to arise.

The Board makes extensive use of virtual communications and deals with matters by correspondence where it is effective to do so. On complex subjects, management provides Directors with the opportunity for one-to-one briefings outside of Board meetings which helps to make the process of dealing with these matters more efficient for the Board.

Board performance and effectiveness

The Board recognises that the continuous development of Directors is important to the Board's performance and effectiveness.

During the year, the following development activities took place:

- One-to-one induction sessions with the new independent Non-Executive Directors.
- One-to-one briefing sessions for independent Non-Executive Directors on the annual report and accounts.
- TPA site visit.
- Training session on the Pensions Dashboard Programme.

External speakers are regularly invited to engage with the Board, so that the Board can benefit from external perspectives. During 2023, the following sessions took place:

- Briefing session on Generative Artificial Intelligence.
- Training session on being a Dementia Friend (by the Alzheimer's Society) and the Senior Manager & Certification Regime.
- Roundtable session with Pension Fund trustees.

An annual process is undertaken to review the fitness and propriety of senior management and Directors. This is overseen by the Chairman and the Regulatory Legal Counsel.

An internally facilitated review of Board and Board Committee effectiveness was undertaken during the year by the Company Secretariat (following an externally facilitated review of Board effectiveness undertaken by Manchester Square Partners in 2022). This consisted of completion of a questionnaire by Directors and a number of other senior executives and collation and presentation of the results at a Board meeting. In addition, the Chairman meets annually with all Directors individually to discuss their feedback on Board performance and their individual contribution.

The review concluded that the Board and its Committees are highly effective and led to a small number of recommendations which will be addressed over 2024.

Induction of new Board members

All newly appointed Directors receive a thorough, tailored induction on joining the Board, organised by the Company Secretary to provide the information required to become effective as soon as possible in their role.

The induction aims to:

a) Build an understanding of Rothesay's business, operations and markets, including opportunities and risks;
b) Develop links with people in the business and an understanding of the Company's culture and key external relationships; and
c) Ensure an understanding of the Board's governance framework and Board processes.

In addition to the core elements of the induction process outlined below, newly appointed Board members have ongoing access to the Company Secretary, members of the management team and resources as appropriate to update their knowledge and skills.

Meetings with Board members and external advisers
Newly appointed Directors meet with each member of the Board as well as the Board's advisers and external stakeholders, including the Company's auditors, Remuneration Committee advisers, financial advisers and brokers.

Meetings with senior management and employees
New Board members spend time meeting with executive management including the Chief Executive Officer and Chief Financial Officer, as well as other members of the senior leadership team.

Training
An electronic induction pack is provided to ensure a thorough understanding of incoming Directors' roles and responsibilities, and the governance framework within which the Board operates.

The Wates Corporate Governance Principles

The Board has decided to apply the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles). Information can be found on our approach to compliance in the Strategic Report and in this Governance Report.

Principle	Where further information can be found
1. Purpose and leadership – An effective board develops and promotes the purpose of a company and ensures that its values, strategy and culture align with that purpose.	Rothesay's purpose is to provide pension security for our policyholders and value to our shareholders over the long term. Rothesay's strategic objectives are discussed on page 28. More information can be found on Rothesay's culture on page 78.
2. Board composition – Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.	Board effectiveness is described above under "Board performance and effectiveness". Board composition is described on page 99. The Nomination Committee is responsible for ensuring that Rothesay's Board and management team have the appropriate mix of expertise and experience. See page 110.
3. Board responsibilities – The board and individual Directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision making and independent challenge.	Board governance is described on page 98. The Audit Committee is responsible for overseeing the systems and controls that ensure the reliability of information provided to the Board. See page 112.
4. Opportunity and risk – A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.	The Board has overall responsibility for identifying opportunities to create and preserve value and this is discussed above under "How the Board spent its time in 2023". The Board Risk Committee (BRC) is responsible for the operation of Rothesay's risk management framework. The framework is described on page 50 and more can be found on the BRC on page 119. Risks and opportunities are also highlighted as part of the description of strategic objectives on page 28.

Principle	Where further information can be found
5: Remuneration – A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.	The Remuneration Committee is responsible for ensuring that Rothesay's remuneration policy appropriately rewards and incentivises our people. See page 121.
6: Stakeholder relationships and engagement – Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.	Rothesay's purpose is to provide pension security for our policyholders and value to our shareholders over the long term. Rothesay has responsibility to a number of other stakeholders, including our suppliers, our people, our community, the environment and our bondholders. The Customer Conduct Committee (CCC) is responsible for ensuring good outcomes for customers, and that clients and counterparties are treated fairly by us and more can be found on the CCC on page 117. Further information on stakeholder engagement and examples of how we take their interests into account can be found on pages 88 to 91.

Board of Directors

Naguib Kheraj CBE
Independent Non-Executive Director and Chairman

Appointed: October 2014

Committees

Naguib Kheraj is a senior adviser to the Aga Khan Development Network and serves on the boards of various entities within the network and is a member of the board of Gavi, the Vaccine Alliance. Naguib is also chairman of Petershill Partners and an advisor to Queensway Group, a hospitality business. Naguib began his career at Salomon Brothers and went on to hold a number of senior positions at leading financial institutions. He served as group finance director and vice-chairman and in various business leadership positions at Barclays and was CEO of JP Morgan Cazenove. He also served as deputy chairman of Standard Chartered plc and chaired its audit committee and risk committee during his tenure. Naguib was formerly a member of the Investment Committee of Wellcome Trust, the Finance Committee of Oxford University Press, the Finance Committee of the University of Cambridge and served on the Board of NHS England.

Antigone (Addy) Loudiadis
Founder Non-Executive Director

Appointed: May 2007

Committees

Addy Loudiadis is Rothesay's co-founder and former Chief Executive Officer from 2007 to 2022. As Founder Director, Addy is a Non-Executive member of the Board. Addy was previously a partner of Goldman Sachs and served as the co-head of the investment banking division in Europe. Before moving to investment banking, she was head of European fixed income sales at Goldman Sachs. Addy is also a former board member of the Association of British Insurers. Addy is a Trustee of the Rothesay Foundation, Rothesay's charitable trust.

Thomas (Tom) Pearce
Chief Executive Officer

Appointed: August 2013

Committees

–

Tom Pearce is Co-Founder and Chief Executive Officer of Rothesay. Tom founded Rothesay with Addy Loudiadis in 2007 and was previously its Managing Director. Tom has overall responsibility for Rothesay's strategy and operational delivery, including Business Development, Financing, Investment Origination and Operations. Tom has been a Board Director of Rothesay since 2016 and he also sits on the Board of the Association of British Insurers. Prior to founding Rothesay, Tom was part of the fixed income and investment banking team at Goldman Sachs with responsibility for pension fund and insurance company clients.

Graham Butcher
Chief Financial Officer

Appointed: October 2023

Committees

–

Graham Butcher is Rothesay's Chief Financial Officer, responsible for all divisions of Rothesay's Finance function, including financial reporting, capital management, product control and actuarial assurance. As CFO, Graham also oversees corporate strategy and new business underwriting. Graham joined Rothesay in 2007 and was previously the Company Head of Strategy and Chief Underwriting Officer, where he led all strategic initiatives, business planning and the pricing, underwriting and risk management of new business. Prior to joining Rothesay, Graham was at Willis Towers Watson where he qualified as a Fellow of the Institute of Actuaries in 2006.

Audit Committee
Remuneration Committee
Customer Conduct Committee
Nomination Committee
Board Risk Committee
Chair

Lisa Arnold
Independent Non-Executive Director

Appointed: July 2023

Committees

Lisa Arnold has held senior positions across financial services, specialising in pharmaceutical, healthcare and biotech. Lisa currently holds non-executive roles at Polar Capital Global Healthcare Trust PLC, PIMCO Europe Ltd, Whitbread UK Pension Fund and Allied Domecq Pension Fund. She previously held non-executive positions at J Sainsbury Pension Scheme, Aquila Energy Efficiency Trust PLC, GSK Pension Scheme & Fund, Tate & Lyle Pension Trust, Cheltenham Ladies College, John Laing Pension Trust, Futura Medical PLC and MHRA (Medicines and Healthcare products Regulatory Agency).

Edward (Ed) Giera
Independent Non-Executive Director

Appointed: January 2021

Committees

Ed Giera is the senior independent director of Santander UK Group Holdings and chair of the bank's risk committee and its responsible banking committee. He previously chaired Pension Insurance Corporation Group's audit & risk committee where he was also a member of the board origination committee. Ed was global head of pensions advisory at JP Morgan and held other senior roles during a 20 year career with the investment bank, and is currently managing partner of a private partnership investing in the global financial services sector.

Sophie O'Connor
Independent Non-Executive Director

Appointed: October 2023

Committees

Sophie O'Connor started her career at Ernst and Young, and then worked for Bank of America Merrill Lynch (previously Merrill Lynch) in the UK and US, where she held a number of senior finance and chief operating officer roles. Sophie currently holds non-executive directorship roles at SMBC Bank International PLC, Bupa Insurance and Tide Holdings Limited and is a trustee of Chance to Shine. She previously held non-executive positions at Scottish Widows, Lloyds Banking Group Insurance and Embark Group (subsidiaries of Lloyds Banking Group), Sanne PLC, BNY Mellon (International) Bank, Reliance Mutual and Mineworkers' Pension Scheme.

Heather Jackson
Independent Non-Executive Director

Appointed: April 2021

Committees

Heather Jackson has held senior board positions across retail and financial services, specialising in technology and change leadership. She was chief information officer for Capital One (in the UK & Europe) and, subsequently, HBOS. At HBOS, she led several functions, including payments, procurement, print/post operations and human resources. Heather currently holds non-executive directorship positions at Ikano Bank AB, and Skipton Building Society Group. She is a trustee with Yorkshire Cancer Research. She previously held non-executive directorship positions at JD Sports Fashion, Lookers PLC, Tandem Bank and the Child Maintenance Enforcement Commission.

Audit Committee
Remuneration Committee
Customer Conduct Committee
Nomination Committee
Board Risk Committee
Chair

Board of Directors continued

Angela Darlington
Independent Non-Executive Director

Appointed: August 2022

Committees

Angela Darlington started her career with Bacon & Woodrow and then worked with William M Mercer on a wide variety of actuarial assignments across many countries. Angela joined Aviva in 2001 where she held a number of senior roles including UK Life chief risk officer, group chief risk officer and CEO of Aviva's UK Life and Health Insurance business. Most recently, Angela was on the Board of the Association of British Insurers as well as member and chair of the Scenario Analysis Working Group as PRA-FCA Climate Change Forum. Angela is currently a Council Member of the London School of Hygiene & Tropical Medicine and a non-executive director of Yorkshire Building Society.

Therese (Terry) Miller CBE
Senior Independent Non-Executive Director

Appointed: September 2017

Committees

Terry Miller is a non-executive director of Goldman Sachs International Bank, a non executive director of Goldman Sachs International and Chair of the Audit Committee of the British Equestrian Federation. She was previously non executive director and the senior independent director of GAlliford Try Plc and of Stelrad Group plc, general counsel of The London Organising Committee of the Olympic and Paralympic Games (LOCOG), a non-executive director of the British Olympic Association and a director and trustee of the Invictus Games Foundation. Prior to her LOCOG appointment, she was with Goldman Sachs for 17 years, most recently as a partner and international general counsel.

Charles Pickup
Independent Non-Executive Director

Appointed: January 2012

Committees

Charles Pickup was previously a partner in the risk consulting and software division of Towers Watson (formerly Tillinghast) and acted as actuarial function holder for Lucida plc, Countrywide and BlackRock. Prior to this Charles worked at Commercial Union and Prudential Bache Securities specialising in UK life insurance.

M. Timothy (Tim) Corbett
Non-Executive Director

Appointed: November 2013

Committees

Tim Corbett is the former chief investment officer of MassMutual. He joined as chief investment officer in 2011 with responsibility for MassMutual's overall investment strategy for the company's general account. He retired from the company in 2023. Prior to joining MassMutual, Tim had been chief investment officer and head of pension fund management with the State of Connecticut Treasurer's Office since 2009. Tim began his professional career at Aetna in 1982, where he ultimately became head of portfolio management, responsible for investment policy and strategy for $20bn general account portfolio. From 2002 to 2008, Tim served as managing director and head of asset management at the Hartford Investment Management Company.

Audit Committee
Customer Conduct Committee
Board Risk Committee
Remuneration Committee
Nomination Committee
Chair

Geoff Craddock
Non-Executive Director

Appointed: January 2023

Committees

–

Geoff Craddock is MassMutual's chief risk officer. Geoff began his career in a range of trading and brokerage positions with various investment banks beginning in Europe. Subsequently, he held roles at the Canadian Imperial Bank of Commerce (CIBC) where he oversaw global market risk management for the bank's investment banking, trading and retail activities. In 2008, Geoff joined MassMutual's asset management subsidiary, OppenheimerFunds, establishing and leading their risk management and asset allocation function after the global financial crisis, enhancing their governance structure and facilitating execution of strategic initiatives. Geoff also served as the leadership sponsor for OppenheimerFunds corporate giving programme. Geoff assumed his current role at MassMutual in 2017.

Arjun Gupta
Non-Executive Director

Appointed: January 2023

Committees

–

Arjun Gupta is president of Europe at GIC. In this role, Arjun heads GIC's London office, which covers Europe, the Middle East, and Africa. Arjun is a member of the GIC Global Leadership Group and in addition, he is co-chair of the GIC Healthcare Business Group, a member of the Integrated Strategies Group investment committee, and a member of the Global Leadership Group nominating committee. Arjun joined GIC Private Equity in 2010 and subsequently held roles as head, portfolio within private equity and head, consumer and healthcare for private equity. He also served on the private equity management and investment committees. Prior to joining GIC, Arjun spent over 20 years in the consumer goods industry with Kraft Foods, where his last two roles were as managing director, Greater China and president, Asia Pacific.

Robin Jarratt
Non-Executive Director

Appointed: December 2013

Committees

Robin Jarratt is head of the global private credit group at GIC. Robin has responsibility for all private credit investment by the firm in the US, Europe and Asia. Robin is a member of GIC Private Equity's management and investment committees.

Audit Committee
Remuneration Committee
Customer Conduct Committee
Nomination Committee
Board Risk Committee
Chair

Nomination Committee report

Appointing new talent

The Nomination Committee is responsible for ensuring that Rothesay's Board and management team have the appropriate mix of expertise and experience.

Naguib Kheraj
Chair of the Nomination Committee

Committee membership
Naguib Kheraj (Chair)
Tim Corbett
Angela Darlington
Ed Giera
Robin Jarratt
Addy Loudiadis
Terry Miller
Charles Pickup

I am pleased to present the Nomination Committee's report for the year ended 31 December 2023, which has been a year particularly focused on the appointment of new independent Non-Executive Directors.

The Nomination Committee is responsible for monitoring the balance of skills, knowledge, experience, independence and diversity on the Board, identifying and recommending Board, Board Committee and certain senior management appointments to the boards of the various Group entities, as appropriate, and monitoring succession plans for the Executive Directors and the development plans of senior management within Rothesay.

The responsibilities of the Committee include reviewing the structure, size and composition of the Board of Directors, identifying and nominating candidates to fill Board vacancies as and when they arise, and approving certain senior management appointments.

The charts presented in the Governance at a glance section show the gender diversity of the Board, Board tenure and the composition of the Board from an independence perspective.

Committee membership and attendance

The Committee is composed of Non-Executive Directors with an appropriate mix of expertise and experience and a majority of independent Non-Executive Directors. The other shareholder Directors were also invited to attend Committee meetings. The CEO also regularly attended Committee meetings when deemed appropriate.

The Committee met formally on three occasions and made use of virtual communications and correspondence to deal with matters efficiently.

Committee activities during 2023

During 2023, the Committee was particularly focused on the appointment of new independent Non-Executive Directors and also dealt with certain Board, Board Committee and senior management appointments.

The Committee considered whether to appoint a Senior Independent Director, and recommended to the Board the appointment of Terry Miller as SID.

The Committee also considered the composition and leadership of the Board Committees and, recommended to the Board the appointment of Angela Darlington and Heather Jackson to the Audit Committee.

The Committee, alongside the Board, oversaw the arrangements for CFO, COO and General Counsel succession, including consideration of the appointments of Graham Butcher and David Cox and reviewing the plans that were put in place to ensure that the transitions were as smooth as possible.

The Committee reviewed the mix of skills and experience of the existing members of the Board, including the Chairman, in the context of succession planning, and engaged a recruitment firm to conduct a search process for new independent Non-Executive Directors. Following an extensive process which included interviews by Committee members, other Board members and members of management, the Committee recommended the appointments of Lisa Arnold and Sophie O'Connor. The Committee also made recommendations as to the Board Committees to which Lisa and Sophie should be appointed: Lisa to the Customer Conduct Committee and Remuneration Committee, and Sophie as Chair of the Audit Committee and to the Board Risk Committee and Customer Conduct Committee.

The Committee has also begun to consider succession planning in relation to other members of the Board who are expected to step down in the next two years; a search firm continues to be retained in respect of one appointment and progress will continue to be made on a further appointment in 2024.

The mix of skills and experience of the Board is summarised in the graph on page 97.

Committee performance and effectiveness

The internal review of Board effectiveness also considered the effectiveness of the Nomination Committee, concluding that it worked effectively. Extensive sharing of information regarding nomination processes with Board members outside of the Committee continued to be well received in 2023 and is to be continued in 2024.

Board composition
For more details see Governance at a glance **on page 96**

Audit Committee report

The Audit Committee plays a key role in monitoring the robustness of Rothesay's systems and controls.

Sophie O'Connor
Chair of the Audit Committee

Committee membership
Sophie O'Connor (Chair)
Angela Darlington
Ed Giera
Heather Jackson
Terry Miller
Charles Pickup

I am pleased to present the Audit Committee's report for the year ended 31 December 2023, which has been a year of transition with the introduction of IFRS 17.

The Committee is responsible for assisting the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the internal and external audit processes and Rothesay's process for monitoring compliance with laws and regulations and the business principles.

The Committee has unrestricted access to management and external advisers to help discharge its duties. It is satisfied that in 2023 it received adequate, reliable and timely information to perform its responsibilities effectively.

Committee membership and attendance

The Committee is composed of only independent Non-Executive Directors with an appropriate mix of expertise and experience.

The Committee met on eight occasions in 2023 at appropriate times in the financial and regulatory reporting audit cycle. The Committee also met twice as a tripartite meeting with the Audit Committee and Board Risk Committee. The Chairman of the Board, CEO, CFO, CRO, Chief Actuary, Chief Auditor, Chief Compliance Officer and representatives of PwC and the shareholders regularly attended Committee meetings. Other members of senior management were also invited to attend as appropriate to present reports. During the year the Committee held regular private sessions with the Chief Auditor, Chief Compliance Officer and PwC without management present.

A number of Committee members are also members of, or regular attendees at, the Board Risk Committee and Customer Conduct Committee. This ensures effective coordination across the committees.

I would like to thank Bill Robertson for his stewardship of the Committee as Chairman prior to October 2023.

As Chair of the Committee, I report on matters dealt with at each Committee meeting to the subsequent scheduled Board meeting.

Committee activities during 2023

The work of the Committee during 2023 fell under four main areas: financial statements and accounting policies, regulatory compliance, internal control (including oversight of the Internal Audit function) and oversight of the external audit.

Financial statements and accounting policies

The Committee reviewed Rothesay's financial announcements, the annual report and accounts, the half-year results and the going concern assumptions in relation to the annual report and accounts.

An important focus of the Committee is assisting the Board in ensuring that the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for stakeholders to assess Rothesay's position and performance, business model and strategy. The Committee has also considered compliance with the Companies (Miscellaneous Reporting) Regulations 2018 and that there is appropriate disclosure on compliance with the Wates Corporate Governance Principles. The Committee has reviewed the climate reporting disclosures.

During 2023, the Committee received regular reports on the implementation of Rothesay's IFRS 17 reporting, approved the methodologies and assumptions and undertook detailed training on the disclosures made under the new standard. The Committee reviewed and approved the IFRS 17 June and December 2023 disclosures.

The Committee reviewed the relevant Solvency II disclosures including the Solvency and Financial Condition Report (SFCR). This included oversight of Rothesay's use of transitional solvency relief during the year, including consideration as to its continuing appropriateness.

The Committee reviewed the key assumptions used in calculating both the long-term insurance liabilities and the MCEV. Key assumptions included the annuitant mortality assumptions, the credit default allowance on the investment portfolio and the risk adjustment requirements around the IFRS assumptions. For IFRS and MCEV, the illiquidity premium is also a key assumption. The Committee also reviewed the categorisation and valuation of Level 3 assets. The following table provides more detail on material accounting issues considered by the Committee.

The Committee reviewed Rothesay's tax policy, strategy statement and reporting on payment practices and performance under regulations made under Section 3 of the Small Business, Enterprise and Employment Act 2015.

The Committee received reports from the Chief Actuary on areas including the reliability and adequacy of technical provisions, the quality of data, underwriting policy and reinsurance arrangements.

Audit Committee report continued

Significant IFRS accounting issues considered by the Committee

Issue	Committee's response
Longevity and credit default assumptions used to determine the valuation of insurance liabilities The inherent uncertainty involved in setting the assumptions used to determine the insurance liabilities for Rothesay, particularly in relation to longevity and credit defaults, represents the most significant area of judgement due to the potential impact these assumptions have on the financial statements.	The Committee focused on the impact of COVID-19 and pressures on the NHS on the valuation of liabilities and on management's proposed changes to reserving assumptions, particularly in relation to longevity and credit default. **Longevity assumptions:** The Committee reviewed available data illustrating recent trends in longevity experience in the UK population, the longevity experience on different blocks of business, industry benchmarking data and reinsurer pricing. As 87% of the longevity risk is reinsured, Rothesay has visibility over market pricing for the majority of its liabilities. Given the uncertainty in relation to future longevity trends, the Committee concluded that it was appropriate to adjust assumed improvements to reflect expectations of lower short-term longevity improvements than previously assumed with no change to assumed long-term longevity improvement rates. **Credit default assumptions:** The Committee reviewed the methodology used to determine credit default assumptions and considered available industry benchmarking data. The Committee concluded that the assumptions used are appropriate for the determination of the insurance liabilities.
Valuation of investments classified as Level 3 under IFRS 13 The valuation of Level 3 assets is based on either inputs into a valuation model or observable prices for proxy positions. This is inherently complex and requires the use of significant management judgement. Furthermore, the balances are material to the financial statements.	The Committee reviewed and approved the Group's valuation policy. The Committee also receives and reviews a report from the Finance function setting out the way in which all Level 3 assets have been valued and the range of plausible valuations. The Committee reviewed the valuation update to assets that are potentially impacted by the Leasehold and Freehold Reform Bill. The Committee noted the significant uncertainty of outcome and reviewed management's approach to the valuation given the uncertainty.
IFRS 17 transition The transition to IFRS 17 has required the use of significant management judgement, in relation to the methodologies and assumptions and the presentation of the results.	The Committee agreed that, where consistent with the standard, the assumptions used under IFRS 17 should be aligned with those used under MCEV for determining the best estimate liabilities and IFRS 4 for determining the risk adjustment. The Committee reviewed and approved the IFRS 17 disclosures both at June and December 2023.

Regulatory compliance

The Committee received regular compliance updates, including:

- from the Compliance function on compliance breaches by employees, on whistleblowing and the way in which Rothesay ensures compliance with relevant laws and regulations, including anti-money laundering and anti-bribery;
- on compliance with the General Data Protection Regulation (GDPR) including data subject access requests;
- updates on Solvency II compliance including the operation of the matching adjustment fund and calculation of transitional capital relief; and
- the results of the reviews undertaken by the Compliance function.

The Committee also reviewed the work being undertaken to strengthen the robustness of the compliance control framework and the compliance with the new Consumer Duty.

Internal control and Internal Audit

The Board has overall responsibility for Rothesay's risk management and internal control systems and alongside the Board Risk Committee, the Committee seeks to ensure that Rothesay operates within a framework of prudent and effective controls and that the Board and its committees receive reliable information. The Group's internal controls are designed to manage rather than eliminate operational risks and can provide only reasonable assurance against material misstatement or loss.

There is an ongoing process for identifying, evaluating and managing the principal risks faced by the Group, which has been in place throughout the period covered by this report and up to the date of approval of the annual report and accounts for 2023. Where any significant weaknesses were identified, corrective actions have been taken, or are being taken and monitored by management and the relevant committees.

The Committee received reports from the Operational Risk function on the robustness of Rothesay's internal controls and from the Information Security function on the IT security framework. It also received reports from the Business Controls Committee, which is chaired by the COO and focuses on the control environment within Rothesay, the management of third parties and the risks arising from new activities.

During 2023, the Committee particularly considered the robustness of the controls over Rothesay's technology infrastructure. The Committee also oversaw work undertaken to improve Rothesay's operational resilience.

The Committee is supported in its oversight of the control framework by regular reports from the Internal Audit function. The Internal Audit Charter sets out the objectives, scope and responsibilities of the Internal Audit function and how it maintains independence from the first and second line management of Rothesay. The Committee reviews, and approves, the Internal Audit Charter annually.

The Chief Auditor reports directly to the Chair of the Committee and her remuneration is approved by the Remuneration Committee. Rothesay is supported in delivery of internal audits by use of external advisers to supplement the in-house Internal Audit team. During 2023, Rothesay re-tendered these services with the result that Deloitte was appointed.

The internal audit plan for 2023 was reviewed and approved by the Committee, with internal audits being planned and prioritised following a risk-based assessment of the business. The Committee also reviewed the combined assurance plan which also considered the activity of compliance and operational risk. Audits undertaken in 2023 included audits of:

- compliance operational processes;
- data privacy and GDPR;
- administration migration;
- IFRS 17 daily P&L Production;
- process and controls over SM&CR;
- company audit of Rothesay Asset Management NA;
- Northern Trust operational processes;
- review of non-standard processes in liability bookings;
- Rothesay Foundation.

Audit Committee report continued

Internal control and Internal Audit (continued)

Internal Audit also closely monitored the project to develop Rothesay's technology platform.

The Committee received regular reports from Internal Audit on the audits that have been carried out, management's response to findings and progress in addressing identified issues. Internal Audit also provided its annual report on Rothesay's risk management and internal control systems to the Audit Committee, concluding that governance, risk and control systems are satisfactory.

Through its close interaction with Internal Audit and feedback from management, the Committee is able to assess the effectiveness of the Internal Audit function. On this basis, the Committee concluded that the function has access to appropriate resources and that it was operating effectively.

External audit

The Committee ran a competitive tender process during 2016 and reappointed PwC as its auditors from the 2017 year end. The external audit contract is required to be put out for tender again no later than for the 2027 year end, at which time Rothesay will not be permitted to reappoint PwC.

The Committee has approved an External Auditor Policy (which was reviewed during the year) which aims to:

- preserve the independence and objectivity of the external auditors in performing the statutory audits;
- ensure the effectiveness of the external auditors; and
- avoid any conflict of interest by outlining both the types of services that the external auditors can and cannot undertake and the considerations that should be applied in assessing potential conflicts of interest.

During 2023, the Committee performed its annual review of the independence, effectiveness and objectivity of the auditor. Management and Directors each completed a questionnaire which sought to evaluate the auditor against a range of criteria. The Committee then reviewed the results and concluded that PwC remains independent and effective.

The fees paid to PwC for the year ended 31 December 2023 are summarised in the table below:

	2023 £000s	2022 £000s
Audit of the financial statements of Rothesay and its subsidiaries	**2,533**	2,874
Total audit	**2,533**	2,874
Required by regulation	**272**	251
Audit-related assurance services	**260**	239
Other assurance services	**55**	51
Non-audit services	**—**	—
Total fees	**3,120**	3,415

Fees for the audit of the financial statements includes some non-recurring work in relation to the transition to IFRS 17. Other assurance services provided in 2023 relate to work associated with the Euro Medium Term Note programme. These services are in compliance with applicable independence rules and Rothesay felt that the external auditors were best placed to provide these services because of their understanding of Rothesay.

Committee performance and effectiveness

The internal review of Board effectiveness also considered the effectiveness of the Audit Committee, concluding that it worked effectively.

Customer Conduct Committee report

The Customer Conduct Committee is responsible for ensuring the delivery of good outcomes for customers and that clients and counterparties are treated fairly by us, as well as overseeing Rothesay's approach to regulatory conduct.

Terry Miller
Chair of the Customer Conduct Committee

Committee membership
Terry Miller (Chair)
Lisa Arnold
Angela Darlington
Heather Jackson
Sophie O'Connor
Charles Pickup

I am pleased to present the Customer Conduct Committee's report for the year ended 31 December 2023, which has been a year particularly focused on the implementation of the Consumer Duty.

The Customer Conduct Committee was established as a Board level committee in 2022. A new Executive level committee was established at the same time with a remit similar to the previous hybrid committee. This restructuring is thought to have delivered the intended outcomes of enhancing our strong governance model while maintaining focus on providing excellent customer service as an essential element of our business model, brand and reputation.

In 2023, I have continued to work with the Chairs of the Board Risk Committee and Audit Committee to co-ordinate the customer and compliance-related accountabilities of the three committees to ensure appropriate coverage and to reduce duplication.

Committee membership and attendance

The Committee is composed solely of independent Non-Executive Directors with an appropriate mix of expertise and experience. The Chairman of the Board, CEO, CFO, Chief Operating Officer, Chief Auditor, Chief Compliance Officer, Chair of the Executive Customer Committee and General Counsel also regularly attended Committee meetings. Other members of management were also invited to attend as appropriate, including to present reports.

The Committee met formally on eight occasions in 2023 (including twice as a tripartite meeting with the Audit Committee and Board Risk Committee) in addition to reviewing customer conduct issues and data via email.

In addition to holding tripartite meetings when such an approach is considered appropriate, a number of Committee members are also members of the Audit Committee and Board Risk Committee. Alongside my continued engagement with the Chairs of the other Board Committees, this ensures effective coordination across the three committees.

Customer Conduct Committee report continued

Committee activities during 2023

The Committee generally considers the following regular items:

- a report from the Executive Customer Committee, including:
  - reporting from the Operations team on customer satisfaction, complaints and the performance of Rothesay's third party administrators on their operations;
  - reporting on customer initiatives; and
  - reporting from the mortgages team on complaints and on progress being made on long-outstanding cases;
- a report on regulatory updates;
- a report from the Compliance function on customer conduct risk; and
- a report from Internal Audit on customer-related audits.

Implementation of the Consumer Duty was a key focus for the Committee in 2023 and, until the Committee meeting which took place after the implementation date of the Consumer Duty, the Committee considered a specific report on the Consumer Duty at each of its meetings. The Committee provided various approvals in respect of the Consumer Duty including, for example, the Day One Assessment (for recommendation to the Board) and the Consumer Duty Monitoring Plan.

Other customer initiatives considered in 2023 included the Pensions Dashboards Programme (until the delay of its implementation was announced), treatment of vulnerable customers, the cost of living crisis, policyholder websites and continuation of the small pots exercise.

The Committee also reviewed and approved:

- the Committee's Reporting/Review Matrix (which set out the respective roles/obligations of relevant business teams, the Customer Working Group, the Executive Customer Committee and the Committee itself);
- a change in the basis for capturing vulnerability information from explicit consent to legal obligation;
- an updated version of the Policyholder Outcomes and Customer Vulnerability Policy;
- a statement, for publication on Rothesay's corporate website, regarding the Capita cyber-incident;
- the reintroduction of a guarantee charge for transfer values and trivial commutations and an update to AVC conversion factors;
- non-standard member options.

As expected, the migration of the administration of the Prudential annuities from Diligenta to Capita took place early in 2023. The Committee received regular reports on the preparations for and implementation of the successful migration.

The Committee also discussed the Capita incident and reviewed Rothesay's response to this.

Committee performance and effectiveness

The internal review of Board effectiveness also considered the effectiveness of the Customer Conduct Committee, concluding that it worked effectively.

Board Risk Committee report

The Board Risk Committee is responsible for the operation of Rothesay's risk management framework.

Ed Giera
Chair of the Board Risk Committee

Committee membership
Ed Giera (Chair)
Angela Darlington
Heather Jackson
Naguib Kheraj
Sophie O'Connor
Charles Pickup

I am pleased to present the Board Risk Committee's report for the year ended 31 December 2023, which has been a year particularly focused on continuing to monitor Rothesay's exposure against its overall risk appetite, against the backdrop of new transactions.

The Committee's primary responsibilities are the ongoing monitoring and control of all risks associated with the activities of Rothesay, within the parameters set by the Board and as set out in the risk and investment policies of Rothesay.

The Committee is also responsible for the oversight of the Executive Risk Committee (ERC) and its sub-committees, which are responsible for the ongoing monitoring and control of all financial risks, insurance risks and operational risks associated with the activities of Rothesay. The ERC has 17 members and is chaired by the CRO.

Committee membership and attendance

The Committee is composed of only independent Non-Executive Directors with an appropriate mix of expertise and experience.

The Committee met for five scheduled and two ad hoc meetings during 2023 in addition to reviewing risk limit changes by circulation. The Committee also met for two tripartite meetings with the Audit Committee and Customer Conduct Committee.

The CEO, CRO, CFO, Chief Underwriting Officer, General Counsel, Chief Actuary, Non-Executive Directors and shareholder representatives regularly attended Committee meetings. Other members of senior management were also invited to attend as appropriate to present reports. The Committee also meets independently with the CRO on a regular basis.

Board Risk Committee report continued

Committee activities during 2023

Risk appetite monitoring

The Committee received regular, detailed reports on key risk exposures and the drivers of risk throughout Rothesay.

The Committee monitored Rothesay's exposure against Rothesay's overall risk appetite.

Risk management and governance

The Committee received regular reports from the ERC and the CRO. This allowed the Committee to monitor the way in which risk was being managed by Rothesay. Regular reporting includes:

- Planned investment activity;
- Compliance with risk limits, including in relation to liquidity;
- Changes to credit ratings;
- Climate change and ESG risk;
- Changes in the risk register;
- Stress testing;
- Potential impact of emerging risks;
- Market risk exposures;
- Operational risk events; and
- Assessment and monitoring of IT resilience, transition, and cyber risk.

The Committee received progress updates on Rothesay's climate change-related initiatives, as well as in-depth reports on the environmental impact of specific sectors.

During 2023, the Committee reviewed Rothesay's Recovery and Resolution Plans and Rothesay's risk appetite. The Committee also reviewed and approved the ORSA.

During the year, the Committee reviewed and approved a number of policies and framework agreements including:

- Market risk policy;
- Risk management framework;
- Risk limit and stress testing framework;
- Underwriting, reinsurance and insurance risk policies;
- FIM and investment credit policies;
- Operational risk policy;
- Liquidity policy; and
- Responsible investment policy.

The Committee reviewed the work done by Rothesay to improve operational resilience following the Capita data breach and considered Rothesay's approach to cyber and technological risk management. The Committee also undertook a quarterly review of the internal model changes and trigger reports. Given the number of large liability transactions in the new business pipeline, the Committee reviewed the work undertaken by the business to ensure operational readiness to execute these.

New transactions

The Committee reviewed the underwriting assumptions made in relation to the large bulk annuity transactions undertaken and proposed. This included consideration of any associated reinsurance and the asset investment approach. The Committee also reviewed and approved the reinsurance transactions entered into during 2023.

The Committee reviewed and approved limits in respect of a number of illiquid investments, both those received as premium on large liability transactions and those which were the focus of investment transactions.

The Committee reviewed and approved management's recommendations regarding changes to certain risk limits.

Internal model

Rothesay's Full Internal Model has been in operation since Q2 2023. The Committee oversees the operation of the FIM and has reviewed minor model changes and ongoing validation work.

Committee performance and effectiveness

The internal review of Board effectiveness also considered the effectiveness of the Board Risk Committee, concluding that it worked effectively.

Remuneration Committee report

Implementing remuneration policy

The Remuneration Committee is responsible for ensuring that Rothesay's remuneration policy provides for, and is implemented in a way that delivers, appropriate reward and incentivisation of our people.

Naguib Kheraj
Chair of the Remuneration Committee

Committee membership
Naguib Kheraj (Chair)
Lisa Arnold
Tim Corbett
Robin Jarratt
Terry Miller

I am pleased to present the Remuneration Committee's report for the year ended 31 December 2023, which has been a year particularly focused on continuing to implement Rothesay's remuneration policy.

Committee membership and attendance

The Committee is composed solely of Non-Executive Directors with an appropriate mix of expertise and experience. Membership includes representation from Rothesay's shareholders facilitating the alignment of long-term interests. The independent Non-Executive Directors form a majority.

The Committee met formally on three occasions in 2023 in addition to considering remuneration matters via email and ad hoc video conference calls. The CEO and CFO also regularly attended part of Committee meetings as appropriate and relevant. The Committee has also retained an independent expert adviser from FIT Remuneration Consultants LLP to provide benchmarking, independent input and industry insights and they generally attend meetings.

Remuneration Committee report continued

Committee responsibilities

The Committee is responsible for reviewing and making recommendations to the Board regarding the remuneration policy of Rothesay and for reviewing compliance with the policy in so far as it relates to senior managers and other employees. Within the context of the policy the Committee is specifically responsible for making recommendations for the remuneration packages of the independent Non-Executive Directors, Executive Directors and other senior managers of Rothesay. The Committee is further responsible for monitoring the overall level and structure of remuneration for the wider population.

Rothesay's remuneration policy is intended to:

- promote sound and effective risk management;
- align individuals' incentives with multi-year performance;
- discourage excessive or concentrated risk-taking;
- allow Rothesay to attract and retain proven talent; and
- align aggregate remuneration with the performance of Rothesay as a whole and encourage teamwork.

This is achieved by ensuring that variable remuneration is linked to performance across a range of financial and non-financial metrics. The CRO provides input to the annual appraisal process and financial metrics are ignored when evaluating the performance of second and third-line staff. Considerable attention is paid to non-financial matters in assessing performance, including policyholder experience, contribution to ESG goals, compliance with Consumer Duty, operational risk management, compliance, conduct and teamwork. Remuneration packages combine a base salary, cash bonuses, a deferred equity award plan and a long-term share appreciation rights plan (the SARs plan).

A summary of the components of remuneration of Executive Directors and senior management can be found in the table on the next page.

Committee activities during 2023

The Committee reviewed the Group's Remuneration Policy with a particular focus on ensuring that the importance of non-financial KPIs, including those relating to ESG factors, is reflected in variable pay.

The Committee reviewed and approved recommendations for the remuneration packages of certain senior managers of Rothesay and also reviewed the recommendations of management in relation to the compensation for employees of the wider Group and in relation to leavers.

The Committee reviewed the total remuneration costs of the Group in relation to the generation of value.

Given continued high inflation in 2023, the Committee was particularly focused on salaries across the Group, particularly for employees on lower salaries. In considering remuneration packages, the Committee was also mindful of the pressure on employee retention and challenges of recruitment.

The Committee reviewed the remuneration in respect of the Senior Independent Director role.

The Committee again approved the award of shares to all employees under the Schedule 2 Share Incentive Plan in order that all employees benefit from the success of Rothesay. The Committee also approved the offer by Rothesay to acquire vested shares from employees.

The Committee reviewed the expiry of the first series of Share Appreciation rights ahead of maturity in 2024.

The Committee reviewed Rothesay's gender pay gap data for 2020 to 2023 and discussed the progress and actions that were being taken to reduce the gap.

The Committee also reviewed the composition of the material risk-taker population regularly this year and their individual performance was discussed at year end.

Committee performance and effectiveness

The internal review of Board effectiveness also considered the effectiveness of the Remuneration Committee, concluding that it worked effectively.

Components of remuneration

Component	Rationale
Salary	Salaries are set at a level which is intended to reflect the individual's responsibility, skill, competence and contribution to Rothesay's objectives, whilst at the same time taking note of the external value placed on the job in the market generally.
Bonus	The annual bonus rewards the achievement of strategic objectives and is linked to Rothesay's KPIs, adjusted for current and future risks. Part of the cash bonus may be deferred. Bonuses are intended to both reward achievement and improve staff retention.
Long-term share-based incentives	Part of the annual bonus may be awarded as equity (through the deferred equity award plan) or stock appreciation rights (the SARs plan). The deferred equity award plan ensures that stock vests and is delivered over several years. It is anticipated that when stock vests, a cash alternative will be offered. The SARs plan pays out at the end of at least three years, assuming performance triggers are met. Both plans ensure that the interests of shareholders and senior management are aligned. Under the Schedule 2 Share Incentive Plan, all eligible UK employees were offered shares in 2020, 2021 and 2022 which will not vest for at least three years. Further shares will be issued under this plan in 2023.
Benefits	Executive Directors and senior management are entitled to benefits in line with those provided to all employees.
Pension	Rothesay operates a defined contribution scheme. Executive Directors and senior management are entitled to membership of the scheme and receive contributions in line with those paid for all employees. Employees on lower salaries are entitled to an additional matched contribution of up to 2%.
Equity	Directors and senior management hold equity as a result of historic awards and annual vestings.
Shareholding guidelines	As the Company is not quoted, Directors and senior management are unable to sell shares except as approved by the Remuneration Committee.
Malus and clawback	Any bonus that has been deferred is capable of a downward adjustment or forfeiture and the rules of the deferred equity award plan ensure that equity can be clawed back even after vesting.

Report of the Directors

The Directors present their annual report and audited consolidated financial statements for Rothesay Limited (the Company), registered number 08668809, for the year ended 31 December 2023.

Comparative information has been presented for the year ended 31 December 2022.

1. General information

Rothesay Limited is the ultimate holding company of the Rothesay group of companies. Rothesay Limited is a registered limited company incorporated and domiciled in the United Kingdom.

All accounting policies, where relevant, have been included within the specific note disclosures.

2. Results

The consolidated results for Rothesay and its subsidiaries (the Group or Rothesay) for the year are set out in the consolidated statement of comprehensive income on page 140. All likely future developments and material assessments of the Group's performance are discussed in the Strategic Report. There were no post balance sheet events.

3. Registered office

Details of the Company and its subsidiaries, including registered offices, can be found in note H.2.

Copies of the annual accounts of subsidiary undertakings are publicly available on the Companies House website or can be obtained from the Company Secretary, The Post Building, 100 Museum Street, London WC1A 1PB.

4. Directors

The membership of the Board of Directors of the Company is given within the Corporate Governance Report on pages 106 to 109, which is incorporated by reference in this report.

During 2023 and up to the date of this report, the following changes to the Board took place:

- Geoff Craddock and Arjun Gupta were appointed to the Board on 20 January 2023;
- Jackie Hunt stood down from the Board on 30 April 2023;
- Lisa Arnold was appointed to the Board as an independent Non-Executive Director on 10 July 2023;
- Andrew Stoker and Bill Robertson stepped down from the Board on 30 September 2023;
- Stan Beckers stood down from the Board on 1 October 2023;
- Graham Butcher was appointed to the Board as an Executive Director on 1 October 2023; and
- Sophie O'Connor was appointed to the Board as an independent Non-Executive Director on 1 October 2023.
- Terry Miller was appointed as Senior Independent Director on 11 January 2024.

5. Qualifying third party indemnities

The Articles of Association of the Company provide for the Directors and Officers of the Company to be indemnified in respect of liabilities incurred as a result of their office. The Company also provides certain protections for Group Directors and senior management against personal financial exposure that they may have incurred in their capacity as such. These include qualifying third party indemnity provisions (as defined under Section 234 of the Companies Act 2006) in force for the benefit of the Directors of the Group during the year and at the date of approval of the financial statements.

6. Dividend

The Board approved the payment of an interim dividend on 6 July 2023 (2022: £nil); the size of the payment was £351m, which was paid on 4 October 2023. The Directors have recommended no final ordinary dividend in respect of the year ended 31 December 2023 (2022: £nil).

7. Disclosure of information to auditors

In the case of each Director in office at the date the Directors' report is approved:

- so far as each Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

8. Auditors

PricewaterhouseCoopers LLP will continue in office as auditors of the Company pursuant to Section 487(2) of the Companies Act 2006. Resolutions to reappoint PricewaterhouseCoopers LLP as auditors to the Group and to authorise the Directors to determine their remuneration are proposed.

9. Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and accounts and the financial statements in accordance with applicable law and regulation. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Company financial statements in accordance with UK-adopted international accounting standards. Under company law, 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 Group and Company and of the profit or loss of the Group for that year. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

10. Internal control and risk management systems

Rothesay has established internal control and risk management systems in relation to the process for preparing consolidated financial statements. The key features of these internal control and risk management systems include:

- management ensures that processes are appropriately followed, documented and controlled;
- the Risk function and management conduct checks on internal controls at least half-yearly;
- the Internal Audit function reviews and assesses controls on an ongoing basis;
- management regularly monitors and considers developments in accounting regulations and best practice in financial reporting and, where appropriate, reflects developments in the consolidated financial statements. The Audit Committee is kept appraised of such developments; and
- the Group's results are subject to various levels of review by management, and the Audit Committee and the Board review the draft consolidated financial statements, Strategic Report and Report of the Directors. The Remuneration Committee reviews the remuneration disclosures. The Audit Committee receives reports from management and the external auditors on significant judgements, changes in accounting policies, changes in accounting estimates and other pertinent matters relating to the consolidated financial statements.

11. Streamlined Energy and Carbon Reporting

Rothesay Limited has prepared Streamlined Energy and Carbon Reporting (SECR) for the Rothesay Group. The Rothesay Limited Group SECR can be found in the ESG section of this report.

12. Date of authorisation of issue

The financial statements were authorised for issue by the Board of Directors on 9 February 2024.

ON BEHALF OF THE BOARD

Tom Pearce
Chief Executive Officer

9 February 2024

Independent auditors’ report to the members of Rothesay Limited

Report on the audit of the financial statements

Opinion

In our opinion, Rothesay Limited’s group financial statements and company financial statements (the “financial statements”):

- give a true and fair view of the state of the group’s and of the company’s affairs as at 31 December 2023 and of the group’s profit and the group’s and company’s cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and accounts 2023 (the “Annual Report”), which comprise: Consolidated and company statements of financial position as at 31 December 2023; the Consolidated statement of comprehensive income, the Consolidated and company cash flow statements, and the Consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”), International Standards on Auditing issued by the International Auditing and Assurance Standards Board (“ISAs”) and applicable law. Our responsibilities under ISAs (UK) and ISAs are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC’s Ethical Standard, as applicable to listed public interest entities, and the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by either the FRC’s Ethical Standard or Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Other than those disclosed in note B.7 Auditors' remuneration, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- Our audit scope has been determined to provide coverage of all material consolidated group and company financial statement line items.

Key audit matters

- Valuation of certain investments classified as Level 3 under IFRS 13 (group)
- Valuation of insurance contract liabilities – Longevity Methodology and Assumptions (group)
- Valuation of insurance contract liabilities – Credit Default Risk Methodology and Assumptions (group)
- Transition to IFRS 17 – Methodology and assumptions used to determine the coverage units for deferred members which are used to calculate the amortisation of the CSM and methodology and assumptions used to calculate the CSM for contacts measured using the Fair Value approach (group)
- Recoverability of the company's investments in Rothesay Life Plc undertakings (parent)

Materiality

- Overall group materiality: £82,500,000 (2022: £79,000,000) based on 1.1% of Adjusted Equity (APM).
- Overall company materiality: £25,840,000 (2022: £25,500,000) based on 1.0% of Total Assets.
- Performance materiality: £62,000,000 (2022: £59,250,000) (group) and £19,380,000 (2022: £19,125,000) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Transition to IFRS 17 – Methodology and assumptions used to determine the coverage units for deferred members which are used to calculate the amortisation of the CSM and methodology and assumptions used to calculate the CSM for contracts measured using the Fair Value approach is a new key audit matter this year. Disclosure of the expected impact of initial application of IFRS 17 in accordance with IAS 8, which was a key audit matter last year, is no longer included because of implementation of IFRS 17. Otherwise, the key audit matters below are consistent with last year.

Independent auditors' report to the members of Rothesay Limited continued

Key audit matter	How our audit addressed the key audit matter
Valuation of certain investments classified as Level 3 under IFRS 13 (group)	
As disclosed in note D.1 Financial Investments.	The procedures to assess the appropriateness of the valuation of certain investments classified as Level 3 included the following:
Financial investments classified as Level 3 under the IFRS 13 fair value hierarchy is a material balance and includes investments in illiquid corporate bonds, loans secured on property which primarily includes commercial real estate loans, loans secured on ground rent assets, Dutch residential mortgages (DRM) and investments in lifetime mortgages (LTM). The valuations of Level 3 investments are typically based on either inputs into a valuation model or observable prices for proxy positions. This is inherently complex and requires the use of significant management judgement. The recent Leasehold reform consultation which ran between 9 November 2023 and 17 January 2024 sought views on limiting the level of ground rents payable on residential properties, as part of the Leasehold and Freehold Reform Bill. The outcome of the consultation is currently unknown and the timing of the Bill is expected later in 2024, meaning there is uncertainty that needs to be considered for both the valuation of the relevant Level 3 assets (loans secured on ground rent assets) as well as the Credit Default assumption associated with these assets (the latter which is considered in the Key Audit Matter below). We note specifically that alternative judgements could be made which could be considered reasonable that would result in a materially different valuation to the assets held.	• Understood and validated the design adequacy and operating effectiveness of management's controls, including the monthly price verification process and controls over the accuracy of significant data inputs; • Engaged relevant experts to test on a sample basis management's valuation methodologies, credit rating methodologies and relevant assumptions, including, but not limited to, discount rates, property assumptions, and illiquidity premiums; • Independently revalued a sample of investments, at year end to verify the correct implementation of management's methodologies; • Assessed the appropriateness of the expert judgements made in determining the impact of the recent Leasehold reform consultation on the valuation of the loans secured on ground rent assets, including ensuring that sufficient consideration was given to a range of likely outcomes of the consultation, subsequent changes in legislation and consideration of the associated disclosure given the inherent uncertainty remaining; and • Tested significant inputs into the valuation of Level 3 financial investments, where possible. Based on the procedures performed and evidence obtained, we consider the valuation of Level 3 financial investments to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities – Longevity Methodology and Assumptions (group)	
As disclosed in note E – Insurance contracts and reinsurance. Annuitant mortality and specifically longevity improvement are inherently uncertain and continue to be an area of judgement. The potential long-term impact of the COVID-19 pandemic on longevity also involves significant expert judgement. Management utilises the group's own historic experience and available market data in the calculation of the appropriate assumptions. For the rate of mortality improvement, this includes the latest model and datasets from the Continuous Mortality Investigation (CMI) bureau, CMI 2022. The IFRS 17 risk adjustment for longevity is calibrated using reinsurance pricing to determine stressed mortality assumptions to reflect the entity's required compensation for the risk. We consider the longevity assumptions underpinning insurance contract liabilities to be a key audit matter, especially given the mono-line nature of the group's insurance business.	The procedures to assess the appropriateness of the longevity assumptions used in the valuation of insurance contract liabilities included the following: • Tested the reasonableness of the base mortality assumptions, including for new liability trades, with reference to relevant rules, actuarial guidance and by applying our industry knowledge and experience; • Tested the controls in place around the performance of longevity experience analysis studies, approval of the proposed assumptions and implementation within actuarial models; • Assessed the appropriateness of expert judgements used in the development of the mortality improvement assumptions. This includes the selection and parameterisation of the CMI model including the choice of the smoothing parameter and long term improvement rate, as well as any expert judgements used in relation to the potential future impact of the current economic environment and the potential long term impacts the COVID-19 pandemic have had on longevity; • Assessed the appropriateness of expert judgements used in the IFRS 17 risk adjustment calibration for longevity risk; • Compared the longevity assumptions selected by the group against those used by their peers using our annual survey of the market; and • Assessed the disclosure of the longevity assumptions and the associated financial impact on the liabilities arising from changes in these assumptions over 2023. Based on the audit procedures performed and evidence obtained, we consider the longevity assumptions used in the valuation of Insurance contract liabilities to be appropriate.

Independent auditors' report to the members of Rothesay Limited continued

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities – Credit Default Risk Methodology and Assumptions (group)	
As disclosed in note E - Insurance contracts and reinsurance. The group has significant holdings in complex and illiquid investments in addition to liquid assets. The credit default risk assumption determines a deduction from the yield on the assets assumed to back the liabilities; this asset yield is used to determine the top-down discount rate used to value the liabilities. The credit default risk for these illiquid assets is judgemental and is generally lower than the corresponding credit default risk deduction on a typical unsecured credit portfolio. The approach used to determine the credit default risk for liquid assets is more complex than others in the market. The deduction from the asset yield reflects the group's view of the value of the security held for the asset class which in itself is an area of judgement. The challenging economic environment has also increased the uncertainty in relation to the credit default assumptions made. For 2023 year end, the calibrations of the credit default modelling assumptions for the liquid assets (in line with the established review cycle) and loans secured on ground rent assets have been reassessed to reflect the most up to date information available. This includes the potential impact of the recent Leasehold reform consultation, the outcome of which is currently uncertain.	The procedures to assess the appropriateness of the credit default assumptions used in the valuation of insurance contract liabilities included the following: • Assessed the methodologies used to derive the assumptions for both liquid and illiquid asset classes with reference to relevant rules and actuarial guidance, by applying our industry knowledge and experience and by assessing the consistency of the assumptions with those used for the asset valuations where appropriate; • Tested controls performed by management over the approval and implementation of credit default assumptions as well as controls over monitoring and updating of the IFRS 17 discount rate to reflect changes in credit default assumptions; • Validated significant assumptions used by management against market observable data (to the extent available and relevant) and our experience of market practices; • Assessed the reasonableness of the expert judgements made in determining the impact of the Leasehold and Freehold Reform Bill on the credit default assumptions for loans secured on ground rent assets, including ensuring that sufficient consideration was given to a range of likely outcomes of the consultation and subsequent changes in legislation; • Compared the assumptions selected against those adopted by peers using our annual survey of the market (to the extent available); • Tested the analysis of the movement in credit default risk assumption prepared by management for each asset class based on current market data and developments in the asset portfolio; and • Assessed the disclosure of the credit default risk assumptions and the associated financial impact on the liabilities from changes in these assumptions over 2023. Based on the audit procedures performed and evidence obtained we consider the methodology and assumptions for Credit Default used in the valuation of Insurance contract liabilities to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Transition to IFRS 17 – Methodology and assumptions used to determine the coverage units for deferred members which are used to calculate the amortisation of the CSM and methodology and assumptions used to calculate the CSM for contracts measured using the Fair Value approach (group)	
Refer to Note A.4 Accounting policies and changes in accounting policies and Note E – Insurance contracts and reinsurance. We have identified that there are elements of the company's transition to IFRS 17 that constitute a key audit matter, particularly around the following: • The methodology and assumptions used to determine coverage units for deferred members in the CSM amortisation calculations at the IFRS 17 transition date. There is significant judgement involved in determining the coverage units for deferred annuitants as there is interpretation within the standard for how to weight the coverage units for the investment return and insurance services provided for deferred annuitants to determine an overall coverage unit profile that reflects the service provided. The choice of coverage units impacts the timing of the release of the CSM and the resulting emergence of profit. • The methodology and assumptions used to calculate the CSM for contracts measured using the Fair Value approach and associated disclosures at the IFRS 17 transition date. There is significant judgement within determining what a fair value is for these contracts as at the transition date and the methods and assumptions which drive the valuation at transition.	We performed the following procedures to assess the methodology and assumptions used to determine coverage units for deferred members in the CSM calculations for the transition to IFRS 17: • Tested the reasonableness of the methodology and appropriateness of expert judgements used in the determination of the coverage units in both the deferred and in-payment phases of a deferred annuity; • Assessed the appropriateness of expert judgements used in the development of the weighting of these coverage units to determine an amortisation profile that reflects the service provided to policyholders over the lifetime of the contract. This includes the overall 'target CSM' weighting approach selected, parameterisation of this weighting for each IFRS 17 group of contracts, as well as any expert judgements in relation to the derivation of a combined coverage unit profile for all policyholders within a group of contracts; • Performed independent baselining of the implementation of the methodology into the actuarial model; • Tested the controls in place around the approval of the proposed assumptions as well as the inputs to the parameterisation of the coverage unit weighting for new IFRS 17 groups; and • Assessed the disclosure of the CSM amortisation methodology and to ensure it appropriately reflects the accounting judgements made to support the profit arising over 2023. We performed the following procedures to assess the methodology and assumptions used to calculate the CSM for contracts measured using the Fair Value approach and associated disclosures for the transition to IFRS 17: • Tested the appropriateness of expert judgements used in the methodology selected for determining the Fair Value of the insurance and reinsurance contracts, and how these were consistent with the Fair Value requirements of IFRS 13; • Assessed the appropriateness of expert judgements used to determine the spread (used to discount the insurance contract liabilities and determine a Fair Value) from the price of annuity deals transacted (both won and lost) in proximity to the IFRS 17 Transition date;

Independent auditors' report to the members of Rothesay Limited continued

Key audit matter	How our audit addressed the key audit matter
	• Tested the controls in place around the approval of the proposed assumptions; and • Compared the methodology and assumptions selected by Rothesay against those used by their peers using our annual survey of the market (where relevant). Based on the audit procedures performed and evidence obtained, we consider the methodology and assumptions used for determining coverage units for deferred members in the CSM calculations, and for calculating the CSM for contracts measured using the Fair Value approach and associated disclosures related to the transition to IFRS 17 to be appropriate.
Recoverability of the company's investments in Rothesay Life Plc undertakings (parent)	
Refer to Financial statements of the company and Note H – Investments in subsidiaries. In the company's statement of financial position, investments in subsidiaries are reported at cost less impairment. As the principal purpose of the parent company is as a holding company, we consider this to be the key audit matter to the parent company accounts.	In respect to the carrying value of investments in Rothesay Life Plc ('RLP') we: • Verify that the accounting policy is in compliance with the applicable financial reporting framework; and • Assessed investments in RLP for indication of impairment considering our understanding of the business. Based on the work performed and the evidence obtained, we consider the carrying value of investments in RLP to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group consists of 11 subsidiary companies and the parent company Rothesay Limited. Of the companies within the group, the most significant component is Rothesay Life plc, which conducts all of the insurance business of the group. PwC UK is the group and company auditors for components requiring statutory audits.

Based on the output of our risk assessment, along with our understanding of the group structure, we performed full scope audits over the following components: Rothesay Limited (company) and Rothesay Life Plc.

We have identified the following component where specific account balances were considered significant in relation to the group, and scoped our audit to include detailed testing of those account balances: Rothesay Pensions Management Limited.

We completed review procedures over the other components not subject to full scope audits.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process adopted to assess the extent of the potential impact of climate risk on the group's Annual Report and Accounts and support the disclosures made.

Management have made disclosures in the group's Environment, Social and Governance Report section of the Annual Report and Accounts in relation to climate change (including the Task Force on Climate-related Financial Disclosures (TCFD)). Management have made commitments to achieving net zero emissions by 2050 and to transitioning their investment portfolio to net zero greenhouse gas emissions by 2050, aligned with a maximum temperature rise of 1.5°C above pre-industrial levels as outlined in the Paris Agreement. We have considered these disclosures as part of our consideration of other Information disclosed in the Annual Report and Accounts as set out in the 'Reporting on other information' section of this report. The key area of the financial statements where management evaluated that climate risk has a potential impact is in the valuation of financial investments. We agree that this is the key area of potential impact and that the relevant disclosures that have been made within the financial statements are appropriate.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
Overall materiality	£82,500,000 (2022: £79,000,000).	£25,840,000 (2022: £25,500,000)
How we determined it	1.1% of Adjusted Equity (APM)	1.0% of Total Assets
Rationale for benchmark applied	We determine a materiality value that reflects the context of business performance and benchmarks which represent the key performance indicators considered important to the users of the financial statements. Based on the benchmarks used in the financial statements, we consider Adjusted Equity (APM) to be the most appropriate benchmark as it represents a reflection of value that aligns with the long term value of the group. We have presented the materiality value as a percentage of Adjusted Equity (APM), but have also compared the materiality value against other relevant benchmarks, such as total assets, total revenue and profit before tax, to ensure the materiality selected was appropriate for our audit.	We consider that total assets is the primary measure used by the shareholders in assessing the performance of the entity and is a generally accepted auditing benchmark for the purpose of the company financial statements.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £6,000,000 and £78,000,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

Independent auditors’ report to the members of Rothesay Limited continued

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £62,000,000 (2022: £59,250,000) for the group financial statements and £19,380,000 (2022: £19,125,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £4,100,000 (group audit) (2022: £3,950,000) and £1,292,000 (company audit) (2022: £1,275,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors’ assessment of the group's and the company’s ability to continue to adopt the going concern basis of accounting included:

- obtaining management’s updated going concern assessment and material assumptions made using our knowledge of group and company's business performance, review of regulatory correspondence and obtaining further corroborating evidence;
- considering management's assessment of the regulatory solvency coverage and liquidity position in the forward looking scenarios considered, which have been driven by the group's ORSA as well as any relevant external factors, including in the current year a consideration of the Government’s recent consultation in relation to ground rents for existing leases;
- considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management’s assessment of going concern; and
- inquiring and understanding the actions taken by management to mitigate the identified risks, including review of Board Risk Committee minutes and attendance of all Audit Committees.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors’ report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group’s and the company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors’ responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006. We evaluated management’s incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries, such as those that could imply an improved capital position of the group and company, management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of insurance contract liabilities and the valuation of investments classified as Level 3 under IFRS 13. Audit procedures performed by the engagement team included:

- Discussions with the Board, management, Internal Audit, senior management involved in the Risk and Compliance functions and the group’s legal function, including consideration of known or suspected instance of non-compliance with laws and regulation and fraud;
- Assessment of any matters reported on the group’s whistleblowing register and the results of management’s investigation of such matters;

Independent auditors' report to the members of Rothesay Limited continued

- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Risk Committee and attending all Audit Committees;
- Reviewing data regarding policyholder complaints, the group's register of litigation and claims, Internal Audit reports, and Compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of life insurance contract liabilities, in particular longevity, credit default risk assumptions; the valuation of investments classified as Level 3 under IFRS 13 described in the related key audit matters; as well as considering whether there are indications of management bias;
- Identifying risk criteria relating to the posting of journals that is susceptible to fraud and analysing the entire population of journals to assess those that meet this criteria; and
- Designing audit procedures that incorporated unpredictability around the nature, timing or extent of our testing to material and immaterial financial statement line items, as well as validating the accuracy of member data from outsourced service providers to underlying evidence.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements in accordance with ISAs (UK) is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group and company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group and company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the members on 26 February 2007 to audit the financial statements for the year ended 30 November 2007 and subsequent financial periods. The period of total uninterrupted engagement is 17 years, covering the years ended 30 November 2007 to 31 December 2023.

Sue Morling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
9 February 2024

Section

3

Financial statements

In this section

The financial statements set out the consolidated results for Rothesay Limited and its subsidiaries for the year ended 31 December 2023.

Consolidated statement of comprehensive income

For the year ended 31 December 2023

	Notes	2023 £m	2022 restated[1] £m
Insurance revenue	B.1	**3,127**	2,891
Insurance service expense	B.1	**(2,658)**	(2,530)
Net expense from reinsurance contracts held	B.1	**(49)**	(29)
Insurance service result		**420**	332
Total investment return/(loss)	B.2	**5,100**	(15,376)
Finance (expense)/income for insurance contracts issued	B.2	**(4,380)**	14,189
Finance income for reinsurance contracts held	B.2	**391**	44
Net insurance finance result		**(3,989)**	14,233
Net insurance and investment result		**1,531**	(811)
Operating expenses	B.3	**(118)**	(46)
Finance costs	B.4	**(507)**	(197)
Profit/(loss) before tax		**906**	(1,054)
Income tax (expense)/credit	B.8	**(213)**	277
Profit/(loss) for the year		**693**	(777)

	Note	2023 £m	2022 restated £m
Profit/(loss) for the financial year		**693**	(777)
Other comprehensive income/(loss):			
Items that are or may be reclassified to profit or loss		**—**	—
Currency translation:			
(Losses)/gains from translation of foreign operations		**(1)**	1
Cash flow hedges:			
Fair value (losses)/gains during the year	C.4	**(3)**	3
Total comprehensive income/(loss) for the year		**689**	(773)

All income and expenses are related to continuing operations.

Notes A–I form an integral part of these financial statements.

1. See Note A.4

Consolidated statement of financial position

As at 31 December 2023

	Notes	31 December 2023 £m	31 December 2022 Restated[1] £m	1 January 2022 Restated[1] £m
Assets				
Property, plant and equipment	I.1	**27**	18	11
Lease – right-of-use assets	I.6	**57**	31	30
Financial investments	D.1	**98,968**	90,929	83,845
Deferred tax asset	G.1	**658**	713	399
Reinsurance contract assets	E.2	**216**	54	38
Accrued interest and prepayments	D.3	**870**	806	641
Receivables	D.4	**2,013**	2,149	454
Cash and cash equivalents	D.5	**267**	270	353
Assets held for sale	D.6	**127**	—	—
Total assets		**103,203**	94,970	85,771
Equity and liabilities				
Equity				
Share capital	C.1	**3**	3	3
Share premium	C.4	**507**	507	1,545
Tier 1 notes	C.3	**793**	793	793
Employee scheme treasury shares and share-based payment reserve	C.2	**(150)**	(143)	(146)
Other reserves	C.4	**133**	137	133
Profit and loss reserve	C.4	**3,065**	2,760	2,522
Total equity		**4,351**	4,057	4,850
Liabilities				
Insurance contract liabilities	E.1	**54,630**	40,971	55,237
Reinsurance contract liabilities	E.2	**461**	848	971
Payables and financial investment liabilities	D.7	**41,281**	47,188	22,875
Leasehold liabilities	I.6	**72**	44	42
Borrowings	D.8	**2,248**	1,764	1,725
Accruals	D.9	**160**	98	71
Total liabilities		**98,852**	90,913	80,921
Total equity and liabilities		**103,203**	94,970	85,771

Notes A–I form an integral part of these financial statements.

The financial statements on pages 142 to 224 were approved by the Board of Directors on 9 February 2024 and signed on its behalf by:

Tom Pearce
Chief Executive Officer

9 February 2024

Company number 08668809

1. See Note A.4

Consolidated statement of changes in equity

For the year ended 31 December 2023

	Notes	Share capital £m	Share premium £m	Tier 1 notes £m	Employee scheme treasury shares and share-based payment reserve £m	Profit and loss reserve £m	Other reserves £m	Total equity £m
Restated balances as at 1 January 2023[1]		**3**	**507**	**793**	**(143)**	**2,760**	**137**	**4,057**
Profit for the year	C.4	**—**	**—**	**—**	**—**	**693**	**—**	**693**
Currency translation	C.4	**—**	**—**	**—**	**—**	**—**	**(1)**	**(1)**
Tier 1 note coupon	C.3, C.4	**—**	**—**	**—**	**—**	**(47)**	**—**	**(47)**
Tier 1 coupon tax relief	C.3, C.4	**—**	**—**	**—**	**—**	**10**	**—**	**10**
Other comprehensive loss for the year	C.4	**—**	**—**	**—**	**—**	**—**	**(3)**	**(3)**
Dividends paid	C.4, C.5	**—**	**—**	**—**	**—**	**(351)**	**—**	**(351)**
Share-based payments	C.2	**—**	**—**	**—**	**(7)**	**—**	**—**	**(7)**
Balances as at 31 December 2023		**3**	**507**	**793**	**(150)**	**3,065**	**133**	**4,351**

Other reserves as at 31 December 2023 includes a hedging reserve of £1m and the reorganisation reserve of £132m (which reflects the impact of Rothesay's reorganisation in 2013, specifically the excess of consolidated net assets to the historical cost of investment in subsidiary entities) (see note C.4).

For the year ended 31 December 2022

	Notes	Share capital £m	Share premium £m	Tier 1 notes £m	Employee scheme treasury shares and share-based payment reserve £m	Profit and loss reserve £m	Other reserves £m	Total equity £m
As at 1 January 2022, as previously reported		3	1,545	793	(146)	3,721	133	6,049
IFRS 17 transitional adjustment, net of tax	C.4	—	—	—	—	(1,199)	—	(1,199)
Restated balances as at 1 January 2022[1]		3	1,545	793	(146)	2,522	133	4,850
Loss for the year (restated)	C.4	—	—	—	—	(777)	—	(777)
Capital reorganisation	C.4	—	(1,038)	—	—	1,038	—	—
Currency translation	C.4	—	—	—	—	—	1	1
Tier 1 note coupon	C.3, C.4	—	—	—	—	(34)	—	(34)
Tier 1 coupon tax relief	C.3, C.4	—	—	—	—	7	—	7
Other comprehensive income for the year	C.4	—	—	—	—	—	3	3
Share-based payments		—	—	—	3	4	—	7
Restated balances as at 31 December 2022[1]		3	507	793	(143)	2,760	137	4,057

Other reserves as at 31 December 2022 includes a hedging reserve of £4m, currency translation of £1m and the reorganisation reserve of £132m (see note C.4).

1. See Note A.4

Consolidated cash flow statement

For the year ended 31 December 2023

	Notes	2023 £m	2022 restated[1] £m
Cash flows from operating activities			
Profit/(loss) for the year		**693**	(777)
Adjustments for non-cash movements in net profit/(loss) for the year			
Hedging reserve	C.4	**(3)**	3
Currency translation	C.4	**(1)**	1
Exchange rate movement on USD borrowings		**(19)**	35
Amortisation of debt cost	B.4	**4**	4
Property, plant and equipment depreciation	I.1	**3**	2
Lease – right-of-use assets depreciation	I.6	**4**	4
Financing charge on leasehold liabilities	I.6	**2**	1
Employee benefit trust		**6**	9
Share-based payment		**(14)**	—
Interest income	B.2	**(2,331)**	(1,789)
Interest expense	B.4	**499**	189
Income tax expense	B.8	**157**	38
Net (increase)/decrease in operational assets			
Financial investments	D.1	**(8,039)**	(7,084)
Deferred tax asset	G.1	**55**	(314)
Reinsurance contract assets	E.2	**(162)**	(15)
Receivables	D.4	**94**	(1,655)
Prepayments	D.3	**55**	(24)
Assets held for sale	D.6	**(127)**	—
Net increase/(decrease) in operational liabilities			
Insurance contract liabilities	E.1	**13,659**	(14,266)
Reinsurance contract liabilities	E.2	**(388)**	(123)
Financial investment liabilities	D.7	**(5,775)**	20,635
Other payables	D.7	**(236)**	3,684
Accrued expenses	D.9	**8**	2
Cash flows used in operating activities		**(1,856)**	(1,440)
Interest paid		**(445)**	(163)
Interest received		**2,212**	1,648
Tax paid		**—**	(81)
Net cash flows used in operating activities		**(89)**	(36)
Cash flows generated from/(used in) financing activities			
Interest payment on Tier 1 notes	C.3	**(47)**	(34)
Cash outflow for leases	I.6	**(3)**	(4)
Proceeds from issuance of debt (net of issuance costs)	D.8	**498**	—
Dividends paid	C.5	**(351)**	—
Net cash flows generated from/(used in) financing activities		**97**	(38)
Net cash outflows used in investing activities			
Acquisition of property, plant and equipment	I.1	**(12)**	(9)
Net cash outflows used in investing activities		**(12)**	(9)
Net decrease in cash and cash equivalents		**(4)**	(83)
Cash and cash equivalents at 1 January	D.5	**270**	353
Cash and cash equivalents at 31 December	D.5	**266**	270

1. See Note A.4

Company statement of financial position

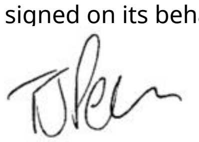
As at 31 December 2023

	Notes	2023 £m	2022 £m
Assets			
Investment in subsidiaries	H.2	**2,476**	2,475
Receivables	D.4	**108**	98
Total assets		**2,584**	2,573
Equity and liabilities			
Share capital	C.1	**3**	3
Share premium	C.4	**507**	507
Share-based payment reserve		**(45)**	(46)
Profit and loss reserve		**1,950**	1,959
Total equity		**2,415**	2,423
Liabilities			
Other payables	D.7	**169**	149
Accruals		**—**	1
Total liabilities		**169**	150
Total equity and liabilities		**2,584**	2,573

Notes A–I form an integral part of these financial statements.

The loss of the Company for the financial year was £9m (2022: loss of £7m). As permitted by section 408 of the Companies Act 2006, the Company's statement of comprehensive income has not been included in these financial statements.

The financial statements on pages 142 to 224 were approved by the Board of Directors on 9 February 2024 and signed on its behalf by:



Tom Pearce
Chief Executive Officer
9 February 2024
Company number 08668809

Company statement of changes in equity

For the year ended 31 December 2023

	Share capital £m	Share premium £m	Share-based payment reserve £m	Profit and loss reserve £m	Total equity £m
As at 1 January 2023	**3**	**507**	**(46)**	**1,959**	**2,423**
Loss for the financial year	**—**	**—**	**—**	**(9)**	**(9)**
Dividends received	**—**	**—**	**—**	**351**	**351**
Dividends paid	**—**	**—**	**—**	**(351)**	**(351)**
Share-based payment reserve	**—**	**—**	**1**	**—**	**1**
As at 31 December 2023	**3**	**507**	**(45)**	**1,950**	**2,415**

For the year ended 31 December 2022

	Share capital £m	Share premium £m	Share-based payment reserve £m	Profit and loss reserve £m	Total equity £m
As at 1 January 2022	3	1,545	(43)	928	2,433
Capital reorganisation	—	(1,038)	—	1,038	—
Loss for the financial year	—	—	—	(7)	(7)
Share-based payment reserve	—	—	(3)	—	(3)
As at 31 December 2022	3	507	(46)	1,959	2,423

Company cash flow statement

For the year ended 31 December 2023

	Notes	2023 £m	2022 £m
Cash flows from operating activities			
Loss for the year	I.2	**(9)**	(7)
Adjustments for non-cash movements in net loss for the year			
Share-based payments and vesting		**(1)**	(3)
Net increase in operational assets			
Receivables	D.4	**(10)**	(20)
Net increase/(decrease) in operational liabilities			
Other payables	D.7	**20**	35
Accruals		**(1)**	—
Net cash flows (used in)/generated from operating activities		**(1)**	5
Interest paid		**—**	—
Cash flows (used in)/generated from operating activities		**(1)**	5
Cash flows used in financing activities			
Dividends paid	C.5	**(351)**	—
Net cash flows used in financing activities		**(351)**	—
Cash flows generated from/(used in) investing activities			
Dividends received	I.2	**351**	—
Investment in subsidiaries	H.2	**1**	(5)
Net cash flows generated from/(used in) investing activities		**352**	(5)
Net decrease in cash and cash equivalents		**—**	—
Cash and cash equivalents at 1 January		**—**	—
Cash and cash equivalents at 31 December		**—**	—

Notes to the financial statements

Note A – Material accounting policy information

A.1 Basis of preparation and consolidation

The consolidated financial statements of Rothesay and those of the Company have been prepared and approved by the Directors in conformity with the requirements of the Companies Act 2006 and UK-adopted International Accounting Standards. The accounting policies have been applied consistently. The financial statements have been prepared on a going concern basis. The financial statements have been prepared on the historical cost basis, except for the revaluation of investment properties measured at fair value and finance leases measured at fair value less cost to sell that are held for sale (see note D.6) and financial assets and financial liabilities that are measured at fair values (see notes D.1 and D.7) at the end of each reporting period.

The Directors have considered the appropriateness of adopting the going concern basis for the preparation of the consolidated financial statements. The Board has considered forward-looking scenarios intended to test the impact of stresses and scenarios that may impact Rothesay's ability to execute its business plan. The results demonstrate the robustness of Rothesay's solvency. Management and the Board believe Rothesay is well capitalised on both a regulatory and economic capital basis and therefore the Board believes it is appropriate to continue to adopt the going concern basis of accounting (see viability and going concern section). The year ended 31 December 2022 numbers have been restated due to the adoption of new IFRS standards (please see note A.4 for impact of retrospective application of IFRS 17 and IFRS 9).

The consolidated and separate financial statements of the Company are presented in sterling (£) rounded to the nearest million (£m) except where otherwise stated. The separate Company statement of financial position is presented on page 146.

An analysis regarding recovery or settlement more than 12 months after the year end is presented in the notes.

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

The consolidated financial statements comprise the financial statements of the Group as at 31 December each year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Rothesay obtains control, and continue to be consolidated until the date when such control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date Rothesay gains control until the date Rothesay ceases to control the subsidiary. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. The notes to the financial statements reflect the Rothesay Group position unless otherwise stated.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions and dividends, are eliminated in full.

Control is achieved when Rothesay is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, Rothesay controls an investee if and only if Rothesay has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

Rothesay reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Notes to the financial statements continued

Note A – Material accounting policy information (continued)
A.1 Basis of preparation and consolidation (continued)
All of Rothesay's business risks and returns are within one business segment (i.e. long-term insurance annuities business). This includes the premiums generated on inwards reinsurance contracts; refer to note B for Rothesay's total insurance revenue. Rothesay's insurance operations are within the United Kingdom. There is no seasonality or cyclicity in Rothesay's business operations.

This is the first set of Rothesay's annual financial statements in which IFRS 9, 'Financial Instruments', and IFRS 17, 'Insurance Contracts', have been applied. The related changes to material accounting policies are described in note A.4.

During the preparation of the consolidated financial statements, Rothesay selects accounting policies and makes estimates and assumptions that impact on the items reported and their presentation. The Audit Committee reviews the reasonableness of these judgements and assumptions as well as the appropriateness of the accounting policies applied. Judgements are decisions which management has made in the process of applying Rothesay's accounting policies. Key considerations of the standard include:

- Assessment of the significance of insurance risk transferred to Rothesay in determining whether a contract should be accounted for as an insurance or investment contract (see note A.2).
- Assessment as to whether there is sufficient reasonable and supportable information available for the fully retrospective approach to be used for the transition to IFRS 17 (see note A.4).
- Assessment of the level of aggregation of insurance and reinsurance contracts which includes identifying portfolios of contracts and determining groups of contracts that are onerous on initial recognition and those that have no significant possibility of becoming onerous subsequently (see note E).
- The method used to measure the risk adjustment for non-financial risk (see note E.7(e)).
- The method used to measure the coverage units for both immediate and deferred annuities provided under insurance contracts (see note E.6).
- The assessment of whether Rothesay controls underlying entities and investments (see note H.1).

Estimates are based on evidence available at the accounting date and opinions provided by subject matter experts. Actual results may vary from the estimates provided. As new facts become available estimates will be updated. Items considered particularly susceptible to changes in estimates are noted below:

- Fair value of financial investments where quoted market prices are not available (see note D.1).
- Measurement of (re)insurance contract liabilities (see note E).
- The impact of the adoption of IFRS 17 in relation to the measurement of the fulfilment cash flows and the contractual service margin for all historical business (see note A.4).

During the year, the government has introduced the Leasehold and Freehold Reform Bill which could impact the valuation of some of the loans secured on property. The fair value assessment included a range of plausible outcomes of the reform which involves significant judgement (see note D.1).

In accordance with IAS 1 and published FRC guidance, within each of the relevant notes Rothesay has included the following information:

- the assumptions made and the uncertainties around these;
- how sensitive the assets and liabilities are to these assumptions;
- expected resolution of the uncertainty and the range of possible outcomes for the financial year ended 31 December 2023; and
- explanation of any changes made to past assumptions if the uncertainty is unresolved.

Note A – Material accounting policy information (continued)

A.2 Contract classification

The adoption of IFRS 17 has not changed the classification of Rothesay's contracts.

Insurance contracts are contracts under which Rothesay accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. This is the case if an insured event could cause Rothesay to make significant additional payments in any scenario, other than a scenario which lacks commercial substance. For Rothesay, the most material risk is the risk that the policyholder lives for longer than expected in which Rothesay has the possibility of a significant loss by paying additional sums for the rest of a policyholder's life. Rothesay has classified its policyholder contracts as insurance contracts based on a contract-by-contract assessment of substantive rights and obligations. Unless otherwise stated, insurance contracts issued also includes reinsurance contracts issued by Rothesay.

Contracts that do not transfer significant insurance risk are investment contracts. Rothesay does not have any investment contracts under IFRS 17.

Lifetime mortgages provide a 'no negative equity guarantee' (NNEG) which limits the compensation of the mortgage repayment amounts (loan principal plus interest on redemption) to a maximum of the sale proceeds of the property on which the loan is secured. Rothesay classifies its lifetime mortgages as financial investments in accordance with IFRS 9 rather than IFRS 17.

A.3 Foreign currency transactions

Transactions denominated in foreign currencies are translated into sterling at rates of exchange ruling on the date the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the financial statement date. Gains and losses on exchange are recognised in operating expenses. The results and financial position of all Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate;
- income, expenses and cash flows denominated in foreign currency are translated at average exchange rates; and
- all resulting exchange differences are recognised through the statement of consolidated comprehensive income and taken to the currency transaction reserve within equity.

A.4 Accounting policies and changes in accounting policies

New IFRS accounting standards adopted during the year:

Rothesay adopted IFRS 9 and IFRS 17 for the first time from 1 January 2023. All other accounting policies have been consistently applied with those of the previous financial year. Rothesay has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Where accounting policies can be directly attributed to a specific note, the policy is presented in that note.

IFRS 17, 'Insurance Contracts', as amended in June 2020

IFRS 17 is the new accounting standard for the recognition, measurement, presentation and disclosure of insurance contracts. The standard supersedes IFRS 4 and has a significant impact on the way Rothesay's results are reported because the standard rebuilds performance measurement in areas ranging from a new definition of insurance revenue to the elimination of upfront profits and spreading of profit across the lifetime of the contract for all business. As a result, IFRS profits that have been declared in the past (and up to 31 December 2022) have been recalculated and restated, and the opening balance sheet adjusted accordingly. The key accounting policies adopted under IFRS 17 are described in notes B and E and the approach to transition is described below.

Notes to the financial statements continued

Note A – Material accounting policy information (continued)

A.4 Accounting policies and changes in accounting policies (continued)

Transition

Where practicable, the transition to IFRS 17 requires fully retrospective application of the standard as if it had always been applied. Where a fully retrospective approach is impracticable, a modified retrospective approach or a fair value approach must be applied.

For Rothesay, the fully retrospective approach is not practicable for business written prior to 1 January 2016 due to data and system constraints which existed pre the introduction of Solvency II, particularly in relation to subsequent changes in assumptions and estimates. Such limitations also make it difficult to apply the modified retrospective approach and we have therefore applied the fair value approach for business written before 2016.

As part of the transition to IFRS 17, we have determined the contractual service margin (CSM) for all historic business. The CSM represents the unearned profit of insurance contracts which are released in the profit or loss over time as the services are provided. We applied the fully retrospective approach to identify, recognise and measure business written from 2016 onwards. Under the fully retrospective approach, the CSM is rolled forward, allowing for interest accretion and CSM adjustments, at the locked-in rate, and amortisation for services provided, to derive the CSM at the valuation date. Further details on CSM accounting policy is provided in notes B and E. Under the fair value approach, the CSM is calculated as the fair value of a group of insurance contracts less the best estimate of the liabilities and risk adjustment as at transition date (1 January 2022). In determining the fair value, Rothesay has applied IFRS 13, Fair Value Measurement, using reasonable and supportable information available at the transition date. The fair value of an insurance liability is the price that a market participant would be willing to pay to assume the obligation and the remaining risks at the transition date. The cash flows considered in the fair value measurement are consistent with those that were within the contract boundary. The relevant fair value of a group of insurance contracts is derived by applying an appropriate discount rate to the best estimate cash flows. The appropriate discount rates are determined using the rate of discount which equates the best estimate liabilities to the premiums paid for business written at or around the transition date (based on business written by Rothesay and its competitors). For reinsurance contracts, the CSM reflects the net cost or gain on purchasing reinsurance at a fair value on the date of transition based on the net outflow to the reinsurer and the associated reduction in risk adjustment.

The first time adoption of IFRS 17 has led to a significant reduction in total equity and lower restated comparative profits for 2022 because of the slower release of profits, which are spread over the lifetime of the contract. This change has been applied retrospectively to all business written in the past at transition date. We have calculated the IFRS 17 transitional impact as at 1 January 2022, allowing for a deferred tax asset in relation to equity impact, to be a loss of £1.2bn. The transitional losses are presented in the statement of changes in equity as a reduction to the profit and loss reserves as at 1 January 2022. Further details on tax accounting are provided in note G.

The impact on Group equity in the comparative periods due to the retrospective changes required under IFRS 17 is shown in the table below. The remeasurement of liabilities adjustment reflects the difference between the requirement for prudent reserving of insurance liabilities under IFRS 4 and the requirement for best estimate reserving under IFRS 17.

	1 January 2022 £m	31 December 2022 £m
Group equity, as previously reported under IFRS 4	6,049	6,176
IFRS 17 transition adjustments:		
Remeasurement of liabilities and reinsurance	3,319	1,980
Creation of CSM	(4,291)	(4,461)
Creation of risk adjustment	(623)	(339)
Deferred tax adjustment	396	701
Group equity, as restated under IFRS 17	4,850	4,057

Note A – Material accounting policy information (continued)

A.4 Accounting policies and changes in accounting policies (continued)

Please refer to the Application of IFRS 17 and IFRS 9 section of the Strategic Report for the comparison of the profit and loss line items between IFRS 4 and IFRS 17. The transitional losses are driven by the fact that Rothesay has grown very rapidly, with the majority of business being written in recent years, and profits generated from writing this business are deferred into the CSM and amortised over time, as services are provided (for further analysis please see the comparison of profits under IFRS 4 and IFRS 17 in the Application of IFRS 17 and IFRS 9 section). In addition, under IFRS 17, only part of the insurance liabilities (the best estimate liabilities and risk adjustment) are exposed to the impact of changes in economic conditions. The CSM is not impacted by such changes because the CSM is calculated using the economic conditions prevailing when contracts were first written. Given Rothesay's approach to hedging interest rate and inflation risk is to hedge somewhere between MCEV and Solvency II, we are effectively over-hedged on an IFRS 17 basis and so the IFRS 17 balance sheet is more sensitive to interest rate movements than the IFRS 4 balance sheet.

Adoption of IFRS 17 had no impact on Rothesay's solvency position or the ultimate profitability of new business. As a result, changes to IFRS accounting are not expected to impact new business pricing, our business strategy, or ability to pay dividends.

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments, sets out the principles for recognition (and derecognition), classification and measurement of financial assets and financial liabilities, and supersedes IAS 39, Financial Instruments: Recognition and Measurement. Rothesay had taken the deferral option in relation to IFRS 9 and adopted the standard on the effective date of IFRS 17 from 1 January 2023.

The initial recognition requirement under IFRS 9 is consistent with IAS 39. IFRS 9 divides financial assets into two classifications: amortised cost and fair value. Where assets are measured at fair value, gains and losses can be recognised through profit or loss (fair value through profit or loss, FVTPL) or recognised in other comprehensive income (fair value through other comprehensive income).

Financial assets that meet the following two conditions must be measured at amortised cost, unless the asset is designated at FVTPL under the fair value option:

- Business model test: the objective of the entity's business model is to hold the financial asset to collect contractual cash flows (rather than to sell the asset prior to its contractual maturity); and
- Cash flow characteristic test: the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Because Rothesay's financial investments are held to meet liabilities, they are designated upon initial recognition at FVTPL to eliminate or significantly reduce accounting mismatch, in line with the matching exemption in IFRS 9, which allows financial assets to be held at fair value where they back financial liabilities at fair value. Lifetime mortgages and derivative assets and liabilities are mandatorily measured at FVTPL.

Prior to transition to IFRS 9, Rothesay's financial investments were already fair valued under IAS 39 and there was no remeasurement and redesignation between asset classes. Consequently, there is no impact to Rothesay's balance sheet on transition to IFRS 9, and no restatement required for comparative periods.

Receivables, cash and cash equivalents, and accrued interest continue to be carried at amortised cost. This is the same classification and measurement under IFRS 9 and IAS 39. These assets are initially recorded at fair value and subsequently measured at amortised cost. Considering these assets are due within one year, highly liquid with low credit risk, Rothesay assesses the amortised cost balances to approximate to their fair value and recoverable amounts. Due to the short-term nature and low credit risk of these assets, Rothesay measures the expected credit loss (ECL) at 12-month ECL. 12-month ECL results from default events that are possible within the 12 months after the reporting date. Rothesay measures the ECL using a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. Rothesay considers evidence of impairment for these assets at both individual asset and collective levels. All individually significant assets are individually assessed for impairment. At 31 December 2023 and 31 December 2022, Rothesay conducted an impairment review of these assets and found no impairment necessary. Rothesay continues to apply IAS 39 hedge accounting rules as permitted by the standards.

Notes to the financial statements continued

Note A – Material accounting policy information (continued)

A.4 Accounting policies and changes in accounting policies (continued)

The following amendments to existing standards are effective on 1 January 2023:

Amendments to IAS 1, Presentation of Financial Statements, and IFRS Practice Statement 2, Making Materiality Judgements

These amendments require companies to disclose their material accounting policies instead of their significant accounting policies, clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed, and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material. These amendments have no impact on Rothesay.

Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

The amendments clarify how companies distinguish changes in accounting policies from changes in accounting estimates, with a primary focus on the definition and guidance on accounting estimates. The amendments clarify that accounting estimates are monetary amounts in the financial statements subject to measurement uncertainty. These amendments have no impact on Rothesay.

Amendments to IAS 12, Income Taxes

These amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. These amendments have no impact on Rothesay. Further amendments were made related to international tax reform “Pillar Two” model rules which give companies temporary relief from accounting for deferred taxes, so that an entity would neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. Rothesay has applied the exception under IAS 12 amendments to recognising and disclosing information about deferred tax assets and liabilities related to top up income taxes arising under Pillar Two. Rothesay does not currently expect the effect of the Pillar Two legislation to have an impact on the tax position in future periods.

New amendments to existing standards that are not yet effective during the year:

Amendments to IFRS 16, Leases

These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted. These amendments are not expected to have any impact on Rothesay.

Amendments to IAS 1, Presentation of Financial Statements

These amendments to classification of liabilities as current or non-current, and non-current liabilities with covenants clarify that the classification of liabilities as current or non-current is based solely on a company’s right to defer settlement for at least 12 months at the reporting date. The right needs to exist at the reporting date and must have substance. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions. These amendments are not expected to have any impact on Rothesay.

Amendment to IAS 7, Statement of Cash Flows and IFRS 7, Financial Instruments: Disclosures

These amendments require an entity to disclose qualitative and quantitative information about its supplier finance programmes and their effects on a company’s liabilities, cash flows and exposure to liquidity risk. These amendments are not expected to have any impact on Rothesay.

Amendments to IAS 21, Foreign Exchange

The amendments impact an entity when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. These amendments are not expected to have any impact on Rothesay.

Note B – Income statement notes

B.1 Insurance revenue and insurance service results

Insurance revenue

Insurance revenue is recognised as Rothesay provides services under groups of insurance contracts. Such contracts include reinsurance inwards, i.e. where Rothesay has reinsured a third party insurer. The insurance revenue relating to services provided for each year represents the total of the changes in the liability for remaining coverage that relate to services for which Rothesay expects to receive consideration, and comprises the following items:

- *A release of the CSM, measured based on coverage units released during the year (see note E for further details).*
- *Changes in the risk adjustment for non-financial risk relating to current services.*
- *Claims and other insurance service expenses incurred in the year, generally measured at the amounts expected at the beginning of the year.*
- *Other amounts, including experience adjustments for premium receipts for current or past services.*

In addition, Rothesay allocates a portion of premiums that relate to recovering insurance acquisition cash flows to each period in a systematic way based on the passage of time. Rothesay recognises the allocated amount as insurance revenue and an equal amount as insurance service expense.

The amount of CSM recognised in the profit or loss in the year represents the coverage units released based on the quantity of services provided to the policyholder during the year. The number of coverage units is a quantification of services provided under the contracts in the group. Services provided under insurance contracts include insurance coverage and investment services for generating an investment return for policyholders. The quantity of benefits provided as part of the investment return service includes both the value generated to the policyholder by investing deferred policy premiums, and the value that Rothesay stands ready to pay policyholders upon them exercising their options before the in-payment period, such as the policyholder's ability to take a transfer value or to commute part of the value of their pension in lieu of an annuity.

Insurance service expense

Insurance service expenses arising from insurance contracts are recognised in profit or loss as they are incurred. The insurance service expense includes:

- *Incurred claims and other insurance service expenses.*
- *Amortisation of insurance acquisition cash flows. This is equal to the amount of insurance revenue recognised in the year that relates to recovering insurance acquisition cash flows.*
- *Adjustments to the liabilities for incurred claims that do not arise from the effects of the time value of money, financial risk and changes therein.*

Payments relating to investment components and premium refunds are excluded from insurance service revenue and insurance service expense (see note E.1).

Net expense from reinsurance contracts held

Reinsurance expenses are recognised similarly to insurance revenue. Net expenses from reinsurance contracts comprise an allocation of reinsurance premiums paid less amounts recovered from reinsurers. Rothesay recognises an allocation of reinsurance premiums paid in profit or loss as it receives services under groups of reinsurance contracts. The allocation of reinsurance premiums paid relating to services received for each year represents the total of the changes in the asset for remaining coverage that relate to services for which Rothesay expects to pay consideration.

Allocation of reinsurance premiums paid include:

- *Expected recovery for insurance service expenses incurred during the year.*
- *Change in the risk adjustment for non-financial risk.*
- *Net cost/gain recognised in profit or loss for the services received.*
- *Amounts relating to recovery in reinsurance acquisition cash flows.*
- *Other amounts, including reinsurance premiums experience adjustment for current or past service.*

Amounts recoverable from reinsurers include:

- *Amounts recoverable for claims and other expenses incurred during the year.*
- *Changes in amounts recoverable arising from changes in liability for incurred claims.*
- *Amounts relating to recovery in reinsurance acquisition cash flows.*

Notes to the financial statements continued

Note B – Income statement notes (continued)

B.1 Insurance revenue and insurance service results (continued)

Analysis of the total insurance revenue, insurance service expenses, and net expense from reinsurance contracts held recognised during the year is shown in the following tables. Note that Rothesay has not written any onerous insurance contracts nor have any insurance contracts became onerous during the year. Consequently, Rothesay has not recognised any losses from onerous insurance contracts in the profit or loss.

	2023 £m	2022 £m
Insurance revenue		
Amounts relating to the change in liabilities for remaining coverage:		
– Expected insurance service expense incurred during the year	**2,648**	2,511
– Change in the risk adjustment for non-financial risk	**8**	24
– CSM recognised in profit or loss for the services provided during the year	**442**	333
Allocation of the portion of premiums that relate to the recovery of insurance acquisition cash flows	**29**	23
Total insurance revenue	**3,127**	2,891
Insurance service expense		
Incurred claims and other incurred insurance service expenses	**(2,629)**	(2,507)
Amortisation of insurance acquisition cash flows	**(29)**	(23)
Total insurance service expense	**(2,658)**	(2,530)
Insurance service result before reinsurance contracts held	**469**	361
Net expense from reinsurance contracts held		
Amounts relating to the change in liabilities for remaining coverage:		
– Expected recovery for insurance service expenses incurred during the year	**(2,132)**	(2,050)
– Change in the risk adjustment for non-financial risk	**—**	(5)
– Net cost recognised in profit or loss for the services received	**(43)**	(25)
– Amounts relating to recovery in insurance acquisition cash flows	**2**	2
Total allocation of reinsurance premiums paid	**(2,173)**	(2,078)
Amounts recoverable for claims and other expenses incurred during the year	**2,126**	2,051
Amounts relating to recovery in insurance acquisition cash flows	**(2)**	(2)
Amounts recoverable from reinsurers	**2,124**	2,049
Total net expense from reinsurance contracts held	**(49)**	(29)
Total insurance service result	**420**	332

Note B – Income statement notes (continued)
B.2 Investment return and net insurance finance income/(expense)

This note provides an analysis of the total investment income and net insurance finance expense recognised in profit or loss during the year. This includes amounts recognised under IFRS 9 and the net insurance finance expense from insurance contracts issued. Insurance finance income and expenses comprise changes in the carrying amounts of groups of insurance and reinsurance contracts arising from the effects of the time value of money, financial risk and changes therein. Net insurance finance expense includes:

- *Interest accreted to (re)insurance contracts using current financial assumptions on fulfilment cash flows.*
- *Interest accreted to (re)insurance contracts using locked-in rate on the CSM.*
- *Effects of changes in interest rates and other financial assumptions.*
- *Net foreign exchange income/(expense).*
- *Effect of changes in non-performance risk of reinsurers.*

Rothesay disaggregates changes in the risk adjustment for non-financial risk between insurance service result and insurance finance income or expense. The groups of insurance contracts, including the CSM, that generate cash flows in a foreign currency are treated as monetary items.

Net foreign exchange income/(expense) is not shown in the table below because it is not material.

	2023 £m	2022 £m
Interest income on financial investments at FVTPL	**2,331**	1,789
Unrealised gains/(losses) on financial investments and financial liabilities at FVTPL	**3,312**	(13,989)
Realised losses on financial investments and financial liabilities at FVTPL	**(482)**	(3,100)
Investment management expenses	**(61)**	(76)
Total investment return/(loss)	**5,100**	(15,376)
Finance (expense)/income from insurance contracts issued		
Interest accreted to insurance contracts using current financial assumptions on fulfilment cash flows	**(1,878)**	(880)
Interest accreted to insurance contracts using locked-in rate on the CSM	**(112)**	(78)
Effects of changes in interest rates and other financial assumptions	**(2,390)**	15,147
Total finance (expense)/income from insurance contracts issued	**(4,380)**	14,189
Finance income from reinsurance contracts held		
Interest accreted to reinsurance contracts using current financial assumptions on fulfilment cash flows	**(157)**	(22)
Interest accreted to reinsurance contracts using locked-in rate on the CSM	**5**	3
Effects of changes in interest rates and other financial assumptions	**543**	62
Effect of changes in non-performance risk of reinsurers	**—**	1
Total finance income from reinsurance contracts held	**391**	44
Total net insurance finance (expense)/income	**(3,989)**	14,233
Represented by:		
Amounts recognised in profit or loss	**1,111**	(1,143)
Amounts recognised in other comprehensive income	**—**	—

Given the approach to interest rate hedging, Rothesay is effectively over-hedged on an IFRS 17 basis. In 2023, long-term interest rates were lower driving gains (unrealised gains plus realised losses) on the financial investments.

Notes to the financial statements continued

B.3 Operating expenses

Operating expenses are presented net of expenses attributed to insurance acquisition cash flows and other directly attributable expenses incurred by Rothesay relating to the fulfilment of the group of insurance contracts in the reporting period. Directly attributable expenses are included in measurement of fulfilment cash flows of the group of insurance contracts and recognised in insurance service expenses as incurred. Costs that are not directly attributable to a portfolio of insurance contracts are recognised in operating expenses as incurred.

The costs of acquiring new business are treated as insurance acquisition cash flows which are amortised in the insurance service expense over time. Where costs are incurred on business that is expected to be written in a subsequent period, an insurance acquisition asset is established. Note that this is different from the approach under IFRS 4 where acquisition expenses were recognised in the period they were incurred.

Expenses can be broken down as follows. The 2022 expenses have been restated to be consistent with IFRS 17.

	2023 £m	2022 restated £m
Attributable acquisition costs	**161**	119
Fulfilment cash flows	**64**	67
Non-attributable costs	**118**	46
Expenses	**343**	232

Non-attributable costs (shown as operating expenses in the statement of comprehensive income) can be broken down between reinsurance fees, property, plant and equipment and right-of-use assets depreciation, and other non-attributable costs. Reinsurance fees can be positive or negative as this amount represents the change in provisions relating to such fees.

	2023 £m	2022 restated £m
Reinsurance fees	**(3)**	(8)
Property, plant and equipment depreciation	**3**	2
Lease – right-of-use assets depreciation	**4**	4
Other non-attributable costs	**114**	48
Operating expenses	**118**	46

An insurance acquisition asset was established in 2022 (2023: nil) which was derecognised and included in the measurement of the group of insurance contracts in 2023. The table below shows the movement in the value of that asset.

	2023 £m	2022 restated £m
Opening insurance acquisition asset	**40**	—
Acquisition cash flows during the year	**161**	119
Amounts derecognised and included in the measurement of insurance contracts	**(201)**	(79)
Closing insurance acquisition asset	**—**	40

Note B – Income statement notes (continued)
B.4 Finance costs

Finance costs consist of finance costs and interest payable on financial liabilities and financing charge on leasehold liabilities. Finance costs are accounted for on an accruals basis.

	2023 £m	2022 £m
Interest payable on collateral	**268**	61
Interest payable on collateralised agreements and financing	**116**	38
Total interest payable on collateral and collateralised agreements	**384**	99
Interest payable on borrowings from related parties	**18**	19
Interest payable on third party borrowings	**103**	78
Financing charge on leasehold liability	**2**	1
Total borrowing costs	**123**	98
Net finance costs	**507**	197

Debt issuance expenses associated with the issue of subordinated loans are recognised over the term of the loan within interest payable.

B.5 Employee information

	2023 No.	2022 No.
Average number of staff employed during the year	**428**	378
Employees by department at year end		
Management	**30**	27
New business origination	**28**	27
Investments	**48**	57
Technology	**130**	90
Finance, legal and HR	**89**	74
Operations and project management	**92**	79
Risk and Internal Audit	**43**	42
	460	396

Rothesay staff costs during the financial year (including Directors' salaries and other pension costs) are as follows:

	2023 £m	2022 £m
Wages and salaries	**172**	112
Social security costs	**33**	17
Other pension costs	**6**	4
Total employee benefits expense	**211**	133

Notes to the financial statements continued

Note B – Income statement notes (continued)
B.5 Employee information (continued)

The increase in wages and salaries has been driven by both the increase in headcount as well as the increase in share price increasing the share based payments expense in the year. The key management personnel who have the authority and responsibility for planning, directing and controlling the activities of Rothesay include its Directors. Further details of key management personnel transactions are included in note I.4.

Directors' emoluments in respect of qualifying services to Rothesay were as follows:

	2023 £m	2022 £m
Directors' remuneration		
Aggregate emoluments	**9**	7
Company pension contributions to money purchase schemes	**—**	—
Total Directors' remuneration	**9**	7
Highest paid Director		
Total amount of emoluments	**4**	3
Company pension contributions to money purchase schemes	**—**	—
Total highest paid Director	**4**	3

In accordance with the Companies Act 2006, Directors' emoluments above represent the proportion of total emoluments paid or payable in respect of qualifying services. This total does not include the value of equity awards in accordance with the provisions of Schedule 5 of SI 2008/410.

During 2023, Directors received no emoluments for non-qualifying services which are required to be disclosed. Four Directors have been granted shares in Rothesay Limited (including the highest paid Director) (2022: three) in respect of long-term incentive schemes. No Directors have exercised options during the year.

B.6 Pensions contribution

Rothesay operates a defined contribution pension scheme, sponsored by Rothesay Pensions Management Limited, and contributions to the scheme are charged to the consolidated statement of comprehensive income as they accrue.

The amount charged for the financial year was £6m (2022: £4m). There were no outstanding contributions as at 31 December 2023 (2022: £Nil).

Note B – Income statement notes (continued)

B.7 Auditors' remuneration

Fees paid and payable to Rothesay's auditors are as follows:

	2023 £000s	2022 £000s
Remuneration receivable by the Company's auditors for the audit of the consolidated and Company financial statements	**100**	95
Remuneration receivable by the Company's auditors for the audit of the financial statements of the Company's subsidiaries	**2,433**	2,779
Total audit	**2,533**	2,874
Required by regulation	**272**	251
Audit-related assurance services	**260**	239
Other assurance services	**55**	51
Non-audit services	**—**	—
Total fees	**3,120**	3,415

Fees for the audit of the financial statements during 2022 and 2023 include some non-recurring work in relation to the transition to IFRS 17. Audit-related assurance services include the review of the Group's interim accounts and MCEV statements. Other assurance services provided in 2023 and 2022 relate to work associated with the renewal of the Euro Medium Term Note Programme. These services are in compliance with applicable independence rules and Rothesay considered that the external auditors were best placed to provide these services because of their expertise and their understanding of Rothesay.

B.8 Income tax

Income tax assets and liabilities for the current year and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the financial statement date. Management uses previous experience and the advice of professional firms when assessing tax risks.

The major components of income tax expense/(credit) for the years ended 31 December 2023 and 31 December 2022 are set out below. The impact of the implementation of IFRS 17 is shown as deferred tax on current period losses carried forward arising from restatement of IFRS 17 profit and loss. The other components for 2022 are unchanged.

	2023 £m	2022 restated £m
Current income tax:		
UK corporation tax	**157**	38
Total current income tax	**157**	38
Deferred tax:		
Deferred tax on current period losses carried forward arising from restatement of IFRS 17 Profit and Loss	**—**	(304)
Origination and reversal of temporary differences	**56**	(11)
Total deferred tax	**56**	(315)
Total tax in the consolidated statement of comprehensive income	**213**	(277)

Notes to the financial statements continued

Note B – Income statement notes (continued)

B.8 Income tax (continued)

The tax expense/(credit) in the consolidated statement of comprehensive income for the financial year and the standard rate of corporation tax in the UK of 23.52% (2022: 19%) is reconciled below:

	2023 £m	2022 restated £m
Profit/(loss) on ordinary activities before taxation	**906**	(1,054)
Tax calculated at UK standard rate of corporation tax of 23.52% (2022: 19%)	**213**	(200)
Rate difference due to IFRS 17 transitional at 24.85% blended rate	**—**	(72)
Other adjustments	**—**	(5)
Total tax reported in the consolidated statement of comprehensive income	**213**	(277)

The Group has applied the temporary exception issued by the IASB in May 2023 from the accounting requirements for deferred taxes in IAS 12. Accordingly, the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes.

On 20 June 2023, the Government of the United Kingdom, where the Parent Company is incorporated, substantively enacted the Pillar Two income taxes legislation effective from 1 January 2024. Under the legislation, the parent company will be required to pay, in the United Kingdom, top-up tax on profits of its subsidiaries that are taxed at an effective tax rate of less than 15%. The Group does not currently generate profits in jurisdictions at rates of below 15% therefore the Group is not currently expecting a cost to arise as a result of this legislative change. This information is based on the profits and tax expense determined as part of the preparation of the Group's consolidated financial statements.

The Group is continuing to assess the impact of the Pillar Two income taxes legislation on its future financial performance and does not currently expect Pillar Two income taxes legislation to have a material impact on its future financial performance.

Note C – Equity

C.1 Share capital

At 31 December 2023 and 31 December 2022 the share capital of Rothesay Limited comprised:

	2023		2022	
	No.	£m	No.	£m
Ordinary share capital of £0.002 each	**1,547,867,965**	**3.1**	1,547,867,965	3.1
Ordinary share capital of £0.001 each	**1**	**—**	1	—
Authorised and issued share capital	**1,547,867,966**	**3.1**	1,547,867,966	3.1

No changes have been made to equity share capital in 2023 or in 2022.

The ordinary shares issued are analysed into the following categories:

	2023		2022	
	No.	£m	No.	£m
A £0.002 ordinary	**1,513,673,632**	**3.0**	1,513,673,632	3.0
B £0.002 ordinary	**34,194,333**	**0.1**	34,194,333	0.1
D £0.001	**1**	**—**	1	—
Total	**1,547,867,966**	**3.1**	1,547,867,966	3.1

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

C.2 Employee scheme treasury shares and share-based payment reserve

The Rothesay Employee Share Trust (the Trust) was established to purchase and hold shares of the Company for delivery of employee share schemes. Shares owned by the Trust are included at cost in the consolidated statement of financial position and are shown as a deduction from shareholders' equity. Gains and losses on sale of shares are charged or credited to the share-based payment reserve in equity. They are disclosed as employee scheme shares until they vest. The table below provides an analysis of the movement in the number of B ordinary shares held by the Trust.

Number of shares	2023 No.	2022 No.
At 1 January	**21,212,847**	23,574,764
Shares acquired from employees	**371,925**	3,008,574
Shares purchased by key management personnel	**—**	(4,819,277)
Shares transferred to the ESIP Trust	**(380,066)**	(263,115)
Shares issued to employees as RSUs vest	**(2,191,218)**	(288,099)
At financial statement date	**19,013,488**	21,212,847

On 3 April 2023, the Trust purchased 361,919 B ordinary shares for consideration of £1.4m. During 2023 the Trust acquired 10,006 (2022: 9,040) B ordinary shares from employees leaving employment.

On 29 March 2022, the Trust purchased 2,999,534 B ordinary shares for consideration of £12.4m. On 31 March 2022, the Trust sold 4,819,277 B ordinary shares to members of key management personnel and their families for consideration of £20m.

Notes to the financial statements continued

Note C – Equity (continued)

C.2 Employee scheme treasury shares and share-based payment reserve (continued)

During March 2020, the Company established a new employee share plan for all UK employees called the Rothesay Life UK Employee Share Incentive Plan (ESIP). The plan has been structured to operate within specific rules set by HM Revenue & Customs. A new employee benefit trust was established to support the ESIP (the ESIP Trust). During the year, the Trust transferred 380,060 shares to the ESIP Trust (2022: 263,115 shares). These shares are held in trust for participating employees in accordance with the ESIP rules. Shares owned by the ESIP Trust are included at cost in the consolidated statement of financial position and are shown as a deduction from shareholders' equity. They are disclosed as employee scheme shares until they are withdrawn.

The table below provides an analysis of the movement in the number of B ordinary shares held by the ESIP Trust.

Number of shares	2023 No.	2022 No.
At 1 January	**750,081**	492,300
Shares forfeited by employees	**—**	(5,334)
Shares transferred to employees	**(10,040)**	—
Shares transferred from the Trust	**380,066**	263,115
At financial statement date	**1,120,107**	750,081

During 2023, the Trust transferred 10,040 (2022: nil) B ordinary shares to employees leaving employment.

The table below details the movement in both the employee benefit trust and the share-based payment reserve.

	Employee benefit trust £m	Share-based payment reserve £m
1 January 2023	**(63)**	**(80)**
Equity amortisation and fair value movement	**—**	**(6)**
Employee share buy back	**(1)**	**—**
Equity vesting and transfers	**7**	**(7)**
31 December 2023	**(57)**	**(93)**

	Employee benefit trust £m	Share-based payment reserve £m
1 January 2022	(72)	(74)
Equity amortisation and fair value movement	—	(2)
Employee share purchase	20	(20)
Employee share buy back	(13)	13
Equity vesting and transfers	2	3
31 December 2022	(63)	(80)

Note C – Equity (continued)

C.3 Restricted Tier 1 notes – sterling

The table below provides a summary of Rothesay's sterling-denominated RT1 notes:

				Carrying amount	
Notional amount	Issue date	Callable at par at the option of the Group from	Coupon	2023 £m	2022 £m
Loan notes issued through public debt markets					
£350m	12 September 2018	12 September 2028	6.875%	**347**	347
£450m	13 October 2021	13 October 2031	5%	**446**	446
				793	793

Rothesay has the option to cancel the principal or coupon payment on all RT1 notes which becomes mandatory cancellable upon breach or non-compliance with RLP's SCR, a breach of the minimum capital requirement (MCR) or where Rothesay has insufficient distributable reserves.

The full principal amount of each note is irrevocably and automatically reduced to zero on a permanent basis if RLP determines at any time that:

i) eligible Own Fund items are less than or equal to 75% of the SCR;
i) eligible Own Fund items are less than or equal to 100% of the MCR; or
ii) a breach of the SCR has occurred and has not been remedied within three months.

Then either:

i) in the case of the £350m of RT1 notes (issued on 5 September 2018), the full principal amount of each note issued is irrevocably and automatically reduced to zero on a permanent basis; or
ii) in the case of the £450m of RT1 notes (issued on 13 October 2021) the notes convert into a new class B of non-voting ordinary shares of RLP.

Notes to the financial statements continued

Note C – Equity (continued)

C.4 Share premium account and reserve

	Share premium £m	Profit and loss reserve £m	Hedging reserve £m	Translation reserve £m	Reorganisation reserve £m
Restated balances as at 1 January 2023	**507**	**2,760**	**4**	**1**	**132**
Profit for the financial year	**—**	**693**	**—**	**—**	**—**
Dividends paid	**—**	**(351)**	**—**	**—**	**—**
Other comprehensive loss	**—**	**—**	**(3)**	**—**	**—**
Currency translation	**—**	**—**	**—**	**(1)**	**—**
Tier 1 note coupon	**—**	**(47)**	**—**	**—**	**—**
Tier 1 note coupon tax relief	**—**	**10**	**—**	**—**	**—**
Balances as at 31 December 2023	**507**	**3,065**	**1**	**—**	**132**

	Share premium £m	Profit and loss reserve £m	Hedging reserve £m	Translation reserve £m	Reorganisation reserve £m
Balances as at 1 January 2022, as previously reported	1,545	3,721	1	—	132
Adjustment on initial application of IFRS 17, net of tax	—	(1,199)	—	—	—
Restated balances as at 1 January 2022	1,545	2,522	1	—	132
Loss for the financial year	—	(777)	—	—	—
Other comprehensive income	—	—	3	—	—
Capital reorganisation	(1,038)	1,038	—	—	—
Currency translation	—	—	—	1	—
Tier 1 note coupon	—	(34)	—	—	—
Tier 1 note coupon tax relief	—	7	—	—	—
Share-based payments	—	4	—	—	—
Restated balances as at 31 December 2022	507	2,760	4	1	132

We have calculated the IFRS 17 transitional impact, after allowing for a deferred tax asset of £0.4bn, to be a loss of £1.2bn. The transitional losses are presented in the statement of changes in equity as a reduction to the profit and loss reserves as at 1 January 2022.

In 2022, in anticipation of the impact of the introduction of IFRS 17 on Rothesay's balance sheet, the Company undertook a capital reorganisation leading to a reduction in share premium of £1,038m and a corresponding increase in the profit and loss reserve. This increase in the profit and loss reserve was offset by the equity impact of the transition to IFRS 17 as at 1 January 2022.

Note C – Equity (continued)

C.4 Share premium account and reserve (continued)

Hedging reserve

A foreign currency exposure arises on the RT1 notes issued in USD and the associated coupon payments (see note D.8). The risk arises from the fluctuation in exchange rates, which would cause volatility in the biannual coupon payments and the principal repayment at the call date.

A cash flow hedge has therefore been put in place to remove the volatility caused by exchange rate movements, using a bespoke fixed-for-fixed cross currency swap. The swap is designated as a hedge of a probable forecasted transaction, being the foreign currency sterling costs of the coupons and principal. As the hedging instrument is a bespoke derivative any ineffectiveness is expected to be immaterial.

Additional disclosures in relation to the cash flow hedges have not been provided as the fair value of the hedges was only £25m as at 31 December 2023 (2022: £48m) which is not material in the context of Rothesay's total derivative position.

C.5 Dividends on ordinary shares

The Board approved the payment of an interim dividend on 6 July 2023 (2022: £nil); the size of the payment was £351m (or 23p per share), which was paid on 4 October 2023. The Directors have recommended no final ordinary dividend in respect of the year ended 31 December 2023 (2022: £nil).

Notes to the financial statements continued

Note D – Financial assets and liabilities
D.1 Financial investments

Financial investments are designated, at initial recognition, as financial investments at fair value through profit or loss, with the exception of (i) derivative assets and lifetime mortgages which are mandatorily measured at fair value through profit or loss and (ii) receivables, cash and accrued interest, which are carried at amortised cost. Fair value is considered consistent with the risk management of the portfolio.

Financial investments at fair value through profit or loss are both financial investments held for trading and financial investments designated upon initial recognition at fair value. Such investments are carried in the consolidated statement of financial position at fair value with net changes in fair value presented in investment income. Transaction costs, which are incremental costs that are directly attributable to the acquisition of a financial asset, are expensed. Financial investments include collective investment schemes, Government, sub-sovereign and agency obligations, derivative assets, corporate bonds and other corporate debt, certificates of deposit, loans secured on property, mortgages and collateralised agreements and financing.

The fair value of a financial instrument is the amount that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. the exit price. Financial investments are marked to bid prices and financial liabilities are marked to offer prices. Fair value gains or losses are included in investment income.

The best evidence of fair value is a quoted price in an active market. If listed prices or quotations are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets, or internally developed models that primarily use, as inputs, market-based or independently sourced parameters, including but not limited to interest rates, volatilities, equity or debt prices, foreign exchange rates, credit curves and funding rates. The fair value of certain financial investments and financial liabilities require valuation adjustments for counterparty credit quality, funding risk, transfer restrictions, illiquidity, property prices and bid/offer inputs based on market evidence.

Financial instruments such as corporate debt securities, covered bonds, Government, sub-sovereign and agency obligations, certificate of deposits and certain money market instruments are valued by verifying to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g. indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources. Valuation adjustments are typically made if (i) the cash instrument is subject to regulatory or contractual transfer restrictions; and/or (ii) for other premiums and discounts that a market participant would require to arrive at fair value.

Certain financial instruments, including collateralised agreements and financing, loans secured on property and mortgages, have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, these instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. When a pricing model is used, the model is adjusted so that the model value of the cash instrument at inception equals the transaction price. Subsequently, Rothesay uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realised on sales.

Rothesay uses derivative contracts for the purposes of efficient portfolio management and to mitigate the risk of adverse market movements. Rothesay's derivative contracts consist primarily of over the counter (OTC) derivatives. Rothesay measures the derivative assets and liabilities on the basis of our net exposure to the relevant risk and the fair value is the price paid to transfer the net long or short position at the balance sheet date. OTC derivatives are generally valued using market transactions and other market evidence, including market-based inputs to models, calibration to market clearing transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations and the relationship of recent market activity to the prices provided from alternative pricing sources.

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Where models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information in the market. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, model selection does not involve significant management judgement because outputs of models can be calibrated to market clearing levels. In circumstances where Rothesay cannot verify the model value by reference to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

Hedge accounting

In 2021, Rothesay designated a certain derivative as a hedging instrument in order to effect cash flow hedges. At the inception of the hedge Rothesay documented the relationship between the hedging instrument and the hedged item. In addition, Rothesay has and will continue to document whether the hedging instrument is highly effective in offsetting changes in fair value or cash flows of the hedged item. Note C.4 provides further details.

Where a cash flow hedging relationship exists, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in net investment income.

Amounts previously recognised in other comprehensive income and accumulated in equity will be reclassified to profit and loss in the accounting period when the hedged item affects profit or loss, in the same line as the hedged item. Hedge accounting will be discontinued when Rothesay cancels the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time is recycled to profit or loss over the period the hedged item impacts profit or loss.

Derecognition

A financial investment (or, where applicable, a part of a financial investment or part of a group of similar financial investments) is primarily derecognised (i.e. removed from Rothesay's statement of financial position) when (i) the rights to receive cash flows from the investment have expired; or (ii) Rothesay has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) Rothesay has transferred substantially all the risks and rewards of the asset; or (b) Rothesay has transferred control of the investment.

When Rothesay has transferred its rights to receive cash flows from an investment or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred all of the risks and rewards of the investment nor transferred control of the investment, Rothesay continues to recognise the transferred investment to the extent of Rothesay's continuing involvement. In that case, Rothesay also recognises an associated liability. The transferred investment and the associated liability are measured on a basis that reflects the rights and obligations that Rothesay has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Rothesay could be required to repay.

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Collateralised agreements and financing

Collateralised agreements (securities purchased under agreements to re-sell and deposits placed as collateral for stock borrowed) and collateralised financing (securities sold under agreements to repurchase and deposits received as collateral for stock loans) are treated as collateralised financing transactions and are carried at fair value through profit and loss under the fair value option, as the securities are managed on a fair value basis. The collateral can be in the form of cash or securities.

Cash collateral is recognised/derecognised when received/paid. Collateral posted by Rothesay in the form of securities is not derecognised whilst collateral received in the form of securities is not recognised on the consolidated statement of financial position. If collateral received is subsequently sold, the obligation to return the collateral and the cash received are recognised in the consolidated statement of financial position.

Impairment of financial assets

In applying the IFRS 9 impairment requirements, Rothesay follows the general approach. Under the general approach, Rothesay determines and recognises the amount of expected credit losses (ECL) depending on the extent of credit deterioration since initial recognition of a financial asset. If there is no significant deterioration in credit risk since initial recognition of a financial asset Rothesay determines the 12-month expected credit losses; if there has been a significant increase in credit risk since initial recognition of a financial asset Rothesay determines and recognises the lifetime expected credit losses.

Rothesay's financial assets that are subject to impairment include receivables, cash and cash equivalents, and accrued interest. Considering these assets are due within one year, highly liquid with low credit risk, Rothesay assesses the amortised cost balances to approximate to their fair value and recoverable amounts. Due to the short-term nature and low credit risk of these assets, Rothesay assesses no deterioration in credit quality and measures the ECL at 12-month ECL. 12-month ECL results from default events that are possible within the 12 months after the reporting date. Rothesay measures the ECL using a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls.

Rothesay considers evidence of impairment for these assets at both individual asset and collective levels. All individually significant assets are individually assessed for impairment. Rothesay assumes that credit risk of a financial asset has not increased significantly since initial recognition if the financial asset has low credit risk at the end of the reporting date.

Rothesay monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, Rothesay will measure the loss allowance based on lifetime rather than 12-month ECL. When assessing whether credit risk for a financial instrument has increased significantly since initial recognition, Rothesay considers reasonable, supportable and forward-looking information. This evaluation encompasses both qualitative and quantitative data, leveraging from Rothesay's expert credit assessments. The quantitative information is a primary indicator of significant increase in credit risk where Rothesay compares the lifetime probability of default as at the end of the reporting date against the lifetime risk of default on initial recognition of the exposure.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Rothesay's financial assets and liabilities are grouped into the following categories:

	2023 £m	2022 £m
Financial investments designated at FVTPL	**59,139**	48,033
Financial investments mandatorily measured at FVTPL	**39,829**	42,896
Accrued interest at amortised cost	**677**	558
Receivables at amortised cost	**2,013**	2,149
Cash and cash equivalents at amortised cost	**267**	270
Total financial assets	**101,925**	93,906
Financial liabilities designated at FVTPL	**2,969**	3,938
Financial liabilities mandatorily measured at FVTPL	**32,993**	37,799
Payables at amortised cost	**5,319**	5,451
Borrowings at amortised cost	**2,248**	1,764
Accrued interest at amortised cost	**114**	59
Total financial liabilities	**43,643**	49,011

Determination of fair value and fair value hierarchy

Rothesay uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

When assessing the fair value of our Level 3 financial investments, we consider and allow for the extent to which the investments may be vulnerable to climate change, either because of vulnerability to physical climate risk or the risk of being stranded assets in the drive to net zero carbon emissions. The valuation of Level 1 and Level 2 financial investments is also assumed to allow for climate change exposure.

The liquidity premium and credit spread were updated on loans that could be impacted by the government’s Leasehold and Freehold Reform Bill, and the associated consultation on potential restrictions to the level of ground rents. The valuation adjustments reflect Rothesay’s assessment of the increased uncertainty resulting from the consultation and are based upon scenario analysis considering a range of potential outcomes informed by the consultation process, discussions with government, legal experts and market participants. The value of these loans is £1.6bn (2022: £1.9bn).

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

The following tables show an analysis of financial investments recorded at fair value by level of the fair value hierarchy for 2023 and 2022 (please refer to note D.7 for financial liabilities):

31 December 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Collective investment schemes	**4,238**	**—**	**157**	**4,395**
Government sub-sovereign and agency obligations	**12,328**	**7,555**	**—**	**19,883**
Corporate bonds and other corporate debt	**—**	**27,394**	**817**	**28,211**
Collateralised agreements and financing	**—**	**63**	**—**	**63**
Loans secured on property	**—**	**103**	**6,344**	**6,447**
Certificates of deposit	**—**	**140**	**—**	**140**
Financial investments designated at FVTPL	**16,566**	**35,255**	**7,318**	**59,139**
Derivative assets (see note D.2)	**—**	**31,723**	**1,894**	**33,617**
Lifetime mortgages	**—**	**—**	**6,212**	**6,212**
Financial investments mandatorily measured at FVTPL	**—**	**31,723**	**8,106**	**39,829**
Total financial investments at FVTPL	**16,566**	**66,978**	**15,424**	**98,968**
Assets held for sale	**—**	**—**	**127**	**127**
Total assets measured at fair value	**16,566**	**66,978**	**15,551**	**99,095**

31 December 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Collective investment schemes	4,586	—	—	4,586
Government sub-sovereign and agency obligations	5,139	6,919	—	12,058
Corporate bonds and other corporate debt	—	24,116	756	24,872
Collateralised agreements and financing	—	430	—	430
Loans secured on property	—	111	5,846	5,957
Certificates of deposit	—	130	—	130
Financial investments designated at FVTPL	9,725	31,706	6,602	48,033
Derivative assets (see note D.2)	—	35,993	1,817	37,810
Lifetime mortgages	—	—	5,086	5,086
Financial investments mandatorily measured at FVTPL	—	35,993	6,903	42,896
Total financial investments at FVTPL	9,725	67,699	13,505	90,929

Note D – Financial assets and liabilities (continued)
D.1 Financial investments (continued)
Rothesay discloses offsetting derivative asset and derivative liability contracts separately in line with IAS 32 requirements and the value of both has decreased significantly during they year due to changes in economic conditions. However, the movement in the value of derivative assets is offset by the movement in the value of derivative liabilities such that on a net basis the value of derivatives increased by £613m in 2023 (2022: fell by £70m).

Collective investment schemes represent money market funds with same-day liquidity. Rothesay utilises these funds as an additional form of financial investment to back insurance contract liabilities. In 2023 there were other investments in funds which are classified within collective investment schemes which are classified as level 3 assets. Approximately 16% (2022: 15%) of the total financial investments recorded at fair value are valued based on estimates using unobservable inputs and recorded as Level 3 investments.

The following table shows a reconciliation of the opening and closing recorded amounts in relation to the Level 3 financial instruments recorded at fair value (excluding lifetime mortgages which are discussed in the lifetime mortgages in the subsequent section below):

	Financial assets measured at fair value on a recurring basis				Others		Financial liabilities measured at fair value on a recurring basis		
Group	Corporate bonds & other corporate debt £m	Loans secured on property £m	Derivative assets £m	Collective investment schemes £m	Assets held for sale £m	Total £m	Collateralised agreements and financing £m	Derivative liabilities £m	Total £m
As at 1 January 2023	**756**	**5,846**	**1,817**	**—**	**—**	**8,419**	**(113)**	**(1,882)**	**(1,995)**
Total gains in the statement of comprehensive income:									
Unrealised (losses)/gains	**(8)**	**(225)**	**77**	**—**	**—**	**(156)**	**(6)**	**(94)**	**(100)**
Transfer into Level 3	**38**	**—**	**—**	**—**	**—**	**38**	**—**	**(2)**	**(2)**
Net purchases/addition	**31**	**723**	**—**	**157**	**127**	**1,038**	**—**	**(7)**	**(7)**
As at 31 December 2023	**817**	**6,344**	**1,894**	**157**	**127**	**9,339**	**(119)**	**(1,985)**	**(2,104)**
As at 1 January 2022	1,092	7,304	3,721	—	—	12,117	(213)	(4,035)	(4,248)
Total gains in the statement of comprehensive income:									
Unrealised losses	(139)	(2,291)	(1,909)	—	—	(4,339)	100	2,153	2,253
Realised gains	7	6	—	—	—	13	—	—	—
Transfer into Level 3	36	—	—	—	—	36	—	—	—
Net purchases/additions/(sales)	(240)	827	5	—	—	592	—	—	—
As at 31 December 2022	756	5,846	1,817	—	—	8,419	(113)	(1,882)	(1,995)

Please see note D.7 for further details of Level 3 financial liabilities. Please refer to note D.6 for the details of assets held for sale.

Rothesay's policy is to determine the relevant categorisation of financial assets and liabilities at least annually and, where availability of inputs has changed, transfers will be made between levels. £38m of corporate debt was transferred from Level 2 to Level 3 during the year (2022: £36m). No corporate debt was transferred from Level 3 to Level 2 in 2023 (2022: £nil). The unrealised losses on Level 3 financial investments were mainly driven by the widening of spreads on loans secured on property and the reduction in inflation swap rates, partially offset by the decrease in the interest rates. The gain observed in Level 3 derivative assets offsets with the loss from the Level 3 derivative liabilities.

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Lifetime mortgages

Lifetime mortgages allow the borrowers to take equity from their homes either as a lump sum or in smaller, regular amounts. The total amount, capital plus interest, is repaid when the borrower dies or moves into long-term care. All lifetime mortgage loans provide a 'no negative equity guarantee' (NNEG), which means that the mortgage repayment amounts (loan principal plus interest on redemption) are subject to a maximum of the sale proceeds of the property on which the loan is secured.

Lifetime mortgages are valued using a discounted cash flow model by projecting future net cash flows on a closed form basis allowing for demographic assumptions, consistent with those used for insurance contracts adjusted for transfer to long-term care, prepayment rates, future expenses and potential cost of providing the NNEG. Cash flows are then discounted at a risk-free rate plus liquidity premium inferred from market-observed levels.

The NNEG can be thought of as a series of options written by Rothesay which allow the lifetime mortgage holders to extinguish their loan by selling their property back to Rothesay at the current market value and at the point at which the mortgage must be redeemed (typically on death or transfer to long-term care), even when property values are lower than the outstanding loan balance.

Underlying house prices have been updated in line with the latest available data. Sensitivities to interest rates and house prices are shown later in this note as these are the most material assumptions given the way in which the potential cost of the no negative equity guarantee is derived.

Given the various assumptions used in valuing the lifetime mortgages, the instruments are recorded as Level 3 assets. The table below provides an analysis of the movement in the value of lifetime mortgages. New business includes both the acquisition of back books of lifetime mortgages and new origination through Rothesay's strategic partners. The impact of the change in economic assumptions for 2023 is dominated by the decrease in interest rates and changes in property prices (2022: increase in interest rates and changes in property prices).

	2023 £m	2022 £m
Carrying amount at 1 January	**5,086**	5,329
Increase in respect of new business	**745**	1,675
Redemptions/repayments	**(288)**	(310)
Accrued interest for the financial year	**305**	249
Change in economic assumptions	**369**	(1,859)
Change in demographic assumptions	**(5)**	2
Closing balance at end of the year	**6,212**	5,086

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Lifetime mortgages (continued)

The table below provides a summary of the cash flows arising from the lifetime mortgage portfolio based on the above assumptions:

	2023 £m	2022 £m
Less than one year	**469**	414
One to five years	**1,336**	1,210
Over five years	**4,407**	3,462
Total	**6,212**	5,086

Collateralised agreements

Assets are transferred under repurchase and securities lending agreements with other financial institutions. The nature and carrying amounts of the assets (all carried at fair value) subject to repurchase and securities lending agreements, as well as their related liabilities, are as follows:

Group	2023		2022	
	Asset £m	Related liability £m	Asset £m	Related liability £m
Government and agency obligations	**3,215**	**2,969**	3,881	3,628
Total collateralised agreements	**3,215**	**2,969**	3,881	3,628

The asset collateral continues to be recognised in full and the related liability reflecting Rothesay's obligations to repurchase the transferred assets at a future date is recognised in other liabilities. Rothesay remains exposed to interest rate risk and credit risk on these pledged instruments. The counterparties' recourse is not limited to the transferred assets.

The net exposure to certain OTC derivatives is collateralised through cash. As at 31 December 2023, the total cash collateral received was £4,940m (2022: £5,234m). Other OTC contracts are collateralised with fixed income securities which are not recognised on the balance sheet of Rothesay.

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Sensitivity of Level 3 financial investments measured at fair value to changes in key assumptions

The following table shows the impact on the fair value (FV) of Level 3 instruments of using reasonably possible alternative assumptions by class of instrument. Changes are made in isolation so, for example, no change is made to property price inflation in the property price sensitivities. Since part of any spread movement is likely to be included in the derivation of the valuation rate of interest, changes in fair value of assets also impact liabilities. The following table also shows the potential impact on profit before tax (PBT) and equity of the same alternative assumptions, assuming that all other pricing inputs remain constant. For corporate bonds and other corporate debt, a 25bp sensitivity is applied to secured debt and a 50bp sensitivity is applied to unsecured corporate bonds. The range of reasonably possible alternative inputs has been reviewed for indication of changes based on market measures such as the quoted bid-offer spreads in liquid bond markets relevant to the investment portfolio and it was deemed to remain appropriate at the reporting date.

The change of assumption was updated for loans potentially impacted by the Leasehold and Freehold Reform Bill by increasing the sensitivity of assumption from +/-25bps to +/- 50bps to reflect some of the increased uncertainty of potential reform and captures a wider range of potential outcomes.

Group Impact on financial assets & liabilities, PBT and equity	Main assumptions	Changes in assumptions	2023 Current FV £m	2023 (Decrease)/ Increase in FV £m	2023 (Decrease)/ Increase in PBT £m	2023 (Decrease)/ Increase in equity £m
Financial assets						
Corporate bonds and other corporate debt	Liquidity premium	+25bps/+50bps	**817**	**(15)**	**(1)**	**(1)**
		-25bps/-50bps	**817**	**16**	**1**	**1**
Collective investment schemes	Fund price	+10%	**157**	**16**	**16**	**12**
		-10%	**157**	**(16)**	**(16)**	**(12)**
Loans secured on property	Liquidity premium	+25bps/+50bps	**6,344**	**(227)**	**—**	**—**
		-25bps/-50bps	**6,344**	**258**	**—**	**—**
Loans secured on property	Property prices	+10%	**6,344**	**13**	**15**	**11**
		-10%	**6,344**	**(24)**	**(30)**	**(23)**
Lifetime mortgages	Liquidity premium	+25bps	**6,212**	**(164)**	**—**	**—**
		-25bps	**6,212**	**171**	**—**	**—**
Lifetime mortgages	House prices	+10%	**6,212**	**71**	**54**	**41**
		-10%	**6,212**	**(95)**	**(74)**	**(57)**
Derivative assets	LPI bid-mid spread	+15bps	**1,894**	**7**	**7**	**6**
		-15bps	**1,894**	**(7)**	**(7)**	**(6)**
Assets held for sale	Fund price	+10%	**127**	**13**	**13**	**10**
		-10%	**127**	**(13)**	**(13)**	**(10)**
Financial liabilities						
Derivative liabilities	LPI bid-mid spread	+15bps	**1,985**	**86**	**86**	**66**
		-15bps	**1,985**	**(86)**	**(86)**	**(66)**
Collateralised financing agreements	Liquidity premium	+25bps	**119**	**6**	**6**	**4**
		-25bps	**119**	**(6)**	**(6)**	**(4)**

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Sensitivity of Level 3 financial investments measured at fair value to changes in key assumptions (continued)

Note that the tables of comparatives below have been restated to show the impact on profit before tax and equity under IFRS 17.

			2022			
Group Impact on financial assets & liabilities, PBT and equity	Main assumptions	Changes in assumptions	Current FV £m	(Decrease)/ Increase in FV £m	Restated (Decrease)/ Increase in PBT £m	Restated (Decrease)/ Increase in Equity £m
Financial assets						
Corporate bonds and other corporate debt	Liquidity premium	+25bps	756	(10)	(1)	(1)
		-25bps	756	10	1	1
Loans secured on property	Liquidity premium	+25bps	5,846	(176)	—	—
		-25bps	5,846	188	—	—
Loans secured on property	Property prices	+10%	5,846	14	3	2
		-10%	5,846	(18)	(11)	(9)
Lifetime mortgages	Liquidity premium	+25bps	5,086	(126)	—	—
		-25bps	5,086	131	—	—
Lifetime mortgages	House prices	+10%	5,086	48	37	30
		-10%	5,086	(65)	(51)	(41)
Derivative assets	LPI bid-mid spread	+15bps	1,817	7	7	5
		-15bps	1,817	(7)	(7)	(5)
Financial liabilities						
Derivative liabilities	LPI bid-mid spread	+15bps	1,882	88	88	72
		-15bps	1,882	(88)	(88)	(72)
Collateralised financing agreements	Liquidity premium	+25bps	113	6	6	5
		-25bps	113	(6)	(6)	(5)

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.2 Derivatives

Rothesay uses derivative financial instruments as part of its risk management strategy and to hedge its solvency position. Objectives include managing exposure to market, foreign currency, inflation and interest rate risks on assets and liabilities (see also note F.2.2). The large movement in the fair value of assets and liabilities has been driven by the change in economic conditions over the year. The total net fair value of Rothesay's derivative assets and liabilities has moved from an asset of £11m as at 31 December 2022 to an asset of £624m as at 31 December 2023.

The following table shows the fair value of derivative financial instruments, recorded as assets or liabilities.

Group	2023		2022	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Derivatives held for risk management				
Interest rate swap	**25,920**	**(26,094)**	26,488	(27,046)
Inflation swap	**4,326**	**(3,911)**	4,276	(3,991)
Currency swap	**3,215**	**(2,849)**	5,133	(4,746)
Credit derivative	**40**	**(105)**	1,899	(1,831)
Forwards	**116**	**(34)**	14	(185)
Total	**33,617**	**(32,993)**	37,810	(37,799)

Derivatives are used solely for efficient portfolio and risk management purposes, allowing market risks to be hedged in line with our risk appetite. Under IFRS certain restrictions apply in relation to the offset of assets and liabilities. Derivatives where the fair value is positive are recognised as an asset, and where the fair value is negative they are recognised as a liability.

Rothesay's exposure under derivative contracts is closely monitored as part of the management of Rothesay's market risk (see also note F.2.2).

D.3 Accrued interest and prepayments

Group	2023 £m	2022 £m
Accrued interest	**677**	558
Prepaid expenses	**193**	248
Total accrued interest and prepayments	**870**	806

Note D – Financial assets and liabilities (continued)
D.4 Receivables

Receivables are recognised initially at fair value of the amount recoverable. Receivables are subsequently stated at amortised cost.

Group	2023 £m	2022 restated £m
Deposits pledged as collateral to third parties	**1,619**	2,060
Tax receivable	**—**	42
Other receivables	**394**	47
Total receivables	**2,013**	2,149

Other receivables includes trade date adjustments.

Receivables of £2,013m (2022: £2,149m) are due within one year. The fair value of receivables is £2,013m (2022: £2,149m). At 31 December 2023 and 31 December 2022, Rothesay conducted an impairment review of the receivables and found no impairment necessary.

The net exposure to certain OTC derivatives is collateralised through cash posted, as per the terms of the OTC contracts. At 31 December 2023, the total cash collateral posted was £1,619m (2022: £2,060m). Further details of the full extent of collateral usage can be found in the credit risk disclosure in note F.2.1.

The table below shows other receivables for the Company. Other receivables relates to a loan to the employee benefit trust and inter-group balances.

Company	2023 £m	2022 £m
Other receivables	**108**	98
Total receivables	**108**	98

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)
D.5 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement held for the purpose of meeting short-term cash commitments.

The cash at bank and in hand of Rothesay at the year end is as follows:

Group	2023 £m	2022 £m
Cash at bank and in hand	**267**	270
Total cash and cash equivalents	**267**	270

D.6 Assets held for sale

Non-current assets are classified as held for sale if it is highly probable that their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for financial assets and investment property that are carried at fair value, which are specifically exempt from this requirement. Impairment losses on initial classification and subsequent gains and losses on remeasurement are recognised in profit or loss. Once classified as held for sale, investment properties are not depreciated and other financial investments and finance lease receivables are not amortised.

The assets held for sale of Rothesay at the year end is as follows:

	2023 £m	2022 £m
Investment properties	**48**	—
Finance lease receivables	**79**	—
Total assets held for sale	**127**	—

Investment properties include residential properties and a hotel under short-term lease. Finance lease receivables include long-term leases of commercial ground rent properties. Rothesay committed to a plan to sell these assets. Efforts to sell these assets have started and the sale is expected within the next 12 months.

The fair value measurement of assets held for sale has been categorised as Level 3 as one or most inputs is significant and unobservable. As at 31 December 2023, the fair value of these assets were based on the most recent transaction prices or the most recent valuation statement after allowing for appropriate valuation haircuts.

Note D – Financial assets and liabilities (continued)
D.7 Payables and financial investment liabilities

Financial investment liabilities are recognised at fair value. Payables are recognised initially at fair value of the amount payable, and subsequently stated at amortised cost.

Group	2023 £m	2022 £m
Derivative financial instruments	**32,993**	37,799
Government, sub-sovereign and agency obligations	**—**	310
Collateralised agreements and financing	**2,969**	3,628
Total financial investment liabilities	**35,962**	41,737
Deposits received as collateral from third parties	**4,940**	5,234
Current tax payable	**105**	—
Employee payables	**196**	133
Other taxes and social security costs	**22**	14
Other payables	**56**	70
Total payables	**5,319**	5,451
Total payables and financial investment liabilities	**41,281**	47,188

Employee payables include deferred cash of £63m (2022: £47m) and the fair value of share-based payments awarded to employees over the lifetime of the incentive plans of £133m (2022: £84m). Other payables include reinsurance fees and trade date adjustments.

Financial investment liabilities are recorded at fair value, of which, £2,104m are valued using Level 3 techniques (2022: £1,995m). The Level 3 financial liabilities are predominantly LPI linked derivatives. The remainder of the financial liabilities are valued using Level 1 and Level 2 techniques.

The impact on the fair value of Level 3 financial liabilities of using reasonably possible alternative assumptions is included in note D.1.

Payables and financial liabilities of £11,055m (2022: £16,710m) are all due within one year. Please note, that for financial liabilities the balance is calculated using undiscounted expected contractual cash flows consistent with note F.2.3.

The net exposures to certain OTC derivatives are collateralised through cash. As at 31 December 2023, the total cash collateral received was £4,940m (2022: £5,234m). Other OTC contracts are collateralised with fixed income securities which are not recognised on the consolidated statement of financial position for Rothesay.

The table below shows total payables for the Company. Other payables are amounts due to other Group undertakings and Company employee payables are share-based payments:

Company	2023 £m	2022 £m
Employee payables	**63**	47
Other payables	**106**	102
Total payables	**169**	149

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)
D.8 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Transaction costs are amortised over the period of the borrowings.

Rothesay's borrowings are as follows:

Group	2023 £m	2022 £m
Subordinated loans from related parties	**299**	299
Subordinated loan notes	**1,636**	1,135
US$400m contingent convertible RT1 notes	**313**	330
Total borrowed	**2,248**	1,764

On 16 May 2023, Rothesay Life Plc (RLP) issued £500m of Tier 2 notes. The notes mature on 16 May 2033 and can be called at par at any time from 16 November 2032. A fixed coupon of 7.734% is payable annually in arrears.

The £300m revolving credit facility entered into in March 2017 was renegotiated in March 2023 and increased to £750m. During January 2023 the facility was extended to February 2028 and remains effective but undrawn.

The carrying amounts, fair values and features of Rothesay's borrowings are summarised in the table below:

					Carrying amount		Fair value	
Notional amount	Issue date	Redemption date	Callable at par at the option of the Group from	Coupon	2023 £m	2022 £m	2023 £m	2022 £m
Subordinated loans from related parties								
£300m	19 September 2017	19 September 2028	19 September 2023 and annually thereafter	6.05%	**299**	299	**297**	294
Subordinated loans								
£250m	30 October 2015	30 October 2025	No call option	8.00%	**250**	250	**258**	258
£500m	12 July 2019	12 July 2026	No call option	3.38%	**492**	490	**472**	450
£400m	17 September 2019	17 September 2029	17 September 2024	5.50%	**396**	395	**396**	390
$400m	27 October 2021	Perpetual	13 April 2027	4.88%	**313**	330	**252**	255
£500m	16 May 2023	16 May 2033	16 November 2032	7.73%	**498**	—	**535**	—

For the year ended 31 December 2023, an interest expense of £121m (2022: £97m) was recognised in the consolidated statement of comprehensive income in respect of these borrowings.

Note D – Financial assets and liabilities (continued)

D.8 Borrowings (continued)

Reconciliation of borrowings

The table below provides a reconciliation between opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activity:

Group	1 January 2023 £m	Cash flows £m	Non-cash flows £m	31 December 2023 £m
Subordinated loans from related parties	**299**	**—**	**—**	**299**
Subordinated loan notes	**1,135**	**498**	**3**	**1,636**
US$400m contingent convertible RT1 notes	**330**	**—**	**(17)**	**313**
Total borrowings	**1,764**	**498**	**(14)**	**2,248**

Group	1 January 2022 £m	Cash flows £m	Non-cash flows £m	31 December 2022 £m
Subordinated loans from related parties	299	—	—	299
Subordinated loan notes	1,131	—	4	1,135
US$400m contingent convertible RT1 notes	295	—	35	330
Total borrowings	1,725	—	39	1,764

D.9 Accruals

Group	2023 £m	2022 £m
Accrued interest	**114**	59
Accrued expenses	**46**	39
Total accruals	**160**	98

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance

Insurance contract liabilities and reinsurance assets and liabilities are determined in line with IFRS 17 using methods and assumptions recommended by the Actuarial function of RLP and approved by the Board.

Segmental analysis and level of aggregation

All of Rothesay's business risks and returns are within one business segment (i.e. long-term insurance business). Rothesay's insurance operations are within the United Kingdom.

Under IFRS 17, insurance contracts are aggregated into groups of contracts for measurement and presentation purposes. Rothesay has identified a single portfolio of annuity contracts and manages all of its annuity business together regardless of whether contracts are insurance or reinsurance issued as they are all subject to similar risks and are managed together. The portfolio of annuity contracts are disaggregated into groups of contracts that are issued within a calendar year (annual cohorts) and are:

a) Contracts that are onerous at initial recognition;
b) Contracts that have no significant possibility of becoming onerous subsequently; and
c) Remaining contracts in the portfolio.

Rothesay determines the appropriate level at which reasonable and supportable information is available to assess whether these contracts are onerous at initial recognition and whether non-onerous contracts have a significant possibility of becoming onerous. The profitability of the annuity contracts is assessed and determined based on expert judgement, which compares the premium applicable to a group of contracts with the estimated fulfilment cash flows and allocated insurance acquisition cash flows at initial recognition (accounting policies are described below). Whether a group of insurance contracts has no significant possibility of becoming onerous subsequently is based on expert judgement using Rothesay's Solvency II capital requirements, which include quantitative assessment of whether the contract premium is sufficient to exceed the sum of the contract's day one fulfilment cash flows and the SCR required to cover the material risks of the contract to the level required under Rothesay's Capital Management Policy. Based on the quantitative assessment, the majority of trades would not remain profitable under a wide range of scenarios, in line with Rothesay's expectations.

Based on the information available, we have categorised all our insurance contracts at initial recognition as "remaining contracts in the portfolio". Rothesay currently does not have any onerous contracts or "contracts that have no significant possibility of becoming onerous subsequently", which are contracts that will remain non-onerous in almost all reasonable future financial and non-financial conditions.

The aggregation of portfolios of reinsurance contracts held is assessed separately from insurance contracts issued. We apply a similar categorisation approach to reinsurance contracts, which results in the following group categories:

a) Contracts with a net gain at initial recognition;
b) Contracts that have no significant possibility of a net gain arising subsequently; and
c) Remaining contracts in the portfolio.

The aggregation assessment of reinsurance contracts held is performed on an individual contract level in a similar manner to the approach for insurance contracts.

Fulfilment cash flows within contract boundary

The fulfilment cash flows are the current estimates of the future cash flows within the contract boundary of a group of contracts that Rothesay expects to collect as premiums and pay out as claims, benefits and directly attributable expenses, adjusted to reflect the timing and the uncertainty of those amounts. The fulfilment cash flows are made up of the present value of the best estimate liabilities and the risk adjustment for non-financial risk (discussed further in the initial measurement section).

The estimates of future cash flows:

a) are based on a probability-weighted mean of the full range of possible outcomes;
b) are determined to be consistent with observable market prices for market variables; and
c) reflect conditions existing at the measurement date.

Note E – Insurance contracts and reinsurance (continued)

Fulfilment cash flows within contract boundary (continued)

We only include cash flows that are within the contract boundary in measuring groups of insurance contracts. Cash flows are within the boundary of an insurance contract if they arise from the rights and obligations that exist during the period in which the policyholder is obligated to pay premiums or Rothesay has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation to provide services ends when:

- *Rothesay has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or*
- *Rothesay has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.*

In practice, Rothesay's obligation to provide services generally ends with the death of the last insured life.

The reassessment of risks considers only risks transferred from policyholders to Rothesay, which may include both insurance and financial risks, but exclude lapse and expense risks.

For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations of Rothesay that exist during the reporting period in which Rothesay is compelled to pay amounts to the reinsurer or in which Rothesay has a substantive right to receive insurance contract services from the reinsurer. A substantive right to receive services from the reinsurer ends at the later of:

- *When the reinsurer can reassess the services and reprice and set a new premium or change the level of benefits which fully reflect the reassessed risk, thereby ending the substantive right of the holder of the reinsurance to receive the service; and*
- *The insurer is no longer compelled to pay a premium, thereby ending the substantive obligation.*

Insurance acquisition cash flows

Cash flows which have been identified as insurance acquisition cash flows are allocated to groups of insurance contracts using a systematic and rational method and considering all reasonable and supportable information that is available without undue cost or effort. Insurance acquisition cash flows arising before the recognition of the related group of contracts can be recognised as an asset. The asset is derecognised when the insurance acquisition cash flows are included in the measurement of the group of contracts. At each reporting date, if facts and circumstances indicate that an asset for insurance acquisition cash flows may be impaired, Rothesay recognises an impairment loss in profit or loss.

Initial recognition

Groups of insurance contracts issued are initially recognised from the earliest of the following:

- *The beginning of the coverage period;*
- *The date when the first payment from the policyholder is due or actually received, if there is no due date; or*
- *When the Group determines that a group of contracts becomes onerous.*

Insurance contracts acquired in a portfolio transfer are accounted for as if they were entered into at the date of transfer. Note that insurance contract liabilities include reinsurance inwards, i.e. where Rothesay has reinsured a third party insurer. Where such contracts benefit from third party reinsurance, the insurance contract liabilities are shown net of those reinsurance arrangements.

Reinsurance contracts held are recognised as follows:

- *Reinsurance contracts held that provide proportionate coverage are recognised at the later of the beginning of the coverage period of the group, and the initial recognition of any underlying insurance contract.*
- *Other reinsurance contracts held are recognised from the beginning of the coverage period of the group of reinsurance contracts held.*

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

Initial measurement

Rothesay has adopted the General Measurement Model (GMM) for the derivation of all our insurance liabilities. Under the GMM, on initial recognition our liabilities comprise the following building blocks:

a) ***Best estimate liabilities (BEL)***

The BEL represents an explicit and unbiased estimate of future cash flows that will arise as Rothesay fulfils the contracts discounted using an approach that reflects the characteristics of the liability (refer to note E.7). In determining the BEL, we use best estimate assumptions based on available market data in an unbiased way. These include demographic assumptions and financial assumptions (refer to note E.7 for the key demographic and financial assumptions applied) which are generally consistent with those used for deriving the best estimate liabilities under other financial reporting metrics such as MCEV and Solvency II.

Rothesay uses consistent assumptions to measure the estimates of the present value of future cash flows for the group of reinsurance contracts held as the estimates for the underlying groups of insurance contracts.

b) ***Risk adjustment (RA)***

The RA reflects the compensation that Rothesay requires for bearing the non-financial uncertainty about the amount and timing of cash flows in the liabilities. In determining the RA, we use the provision for adverse deviation approach (the PAD approach) under which we apply margins to the best estimates for material demographic and expense risk. Allowances are made for operational risk and diversification between these risk factors. These allowances reflect Rothesay's compensation for bearing the uncertainty around these risks. A consistent technique is applied to both insurance and reinsurance contracts held, with the RA related to reinsurance reflecting the amount of additional or reduced compensation that Rothesay requires for holding the reinsurance contracts.

Methods and assumptions used to determine the risk adjustment for non-financial risk are discussed in note E.7.

c) ***Contractual service margin (CSM)***

The CSM represents the unearned profit that Rothesay will recognise over time as it provides services in the future of the insurance contract. The CSM is calculated at the inception of the contract and is released as profit as the liability is discharged. Determination of CSM amortisation and coverage units are discussed in note E.6.

The CSM is calculated as the difference between the premiums received by Rothesay and the fulfilment cash flows (the sum of BEL and RA), and any allocated acquisition cash flows. When this calculation results in a net outflow, the group of insurance contracts issued is onerous. This loss is recognised in profit or loss immediately and a loss component is established in the amount of loss recognised.

For reinsurance contracts, the CSM represents the net cost or gain on purchasing reinsurance based on the net outflow to the reinsurer, which is calculated as the sum of the reinsurance premiums, reinsurance BEL and RA, any allocated acquisition cash flows on reinsurance, and any income recognised in profit or loss when Rothesay recognises a loss on initial recognition of an onerous group of underlying insurance contracts. A loss-recovery component is established within the remaining coverage for the income recognised from the loss recognised for the onerous group of underlying insurance contracts.

Insurance contracts subsequent measurement

Rothesay measures the carrying amount of a group of insurance contracts at each reporting date as the sum of:

- *the liability for remaining coverage which comprises the future BEL and RA cash flows that relate to services to be delivered in future periods and any remaining CSM; and*
- *the liability for incurred claims which includes unpaid incurred claims and expenses.*

Note E – Insurance contracts and reinsurance (continued)

Changes in fulfilment cash flows

The BEL and RA are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk. Changes in fulfilment cash flows are recognised as follows:

i) Changes relating to future services to the extent that the future BEL and RA cash flows change due to non-financial risks, e.g. because experienced longevity varies from the levels assumed or due to changes in long-term demographic assumptions, adjust the CSM;
ii) Changes relating to current or past services are recognised in the insurance service result in profit or loss; and
iii) The effects of the time value of money, financial risk and changes therein on estimated future cash flows are recognised as insurance finance income or expenses in the profit or loss.

The most significant non-financial risks that Rothesay is exposed to include demographic risks (including longevity and member option risk) and expense risks, while the most material financial risks include discount rates (including those used in member option calculations) and prospective inflation risk (refer to note E.7 for the details of the key financial and non-financial risks).

Changes in the CSM

The CSM is adjusted to reflect the following at the end of each reporting period:

i) the effects of new contracts added to the group;
ii) CSM interest accretion using discount rates determined on initial recognition ("locked-in" economic conditions);
iii) CSM adjustments due to changes in non-financial assumptions impacting the fulfilment cash flows relating to future service, also calculated using locked-in economic conditions;
iv) impact of any currency exchange differences; and
v) amortisation of the CSM for the services provided in the period in line with the coverage units released.

Reinsurance contracts subsequent measurement

The carrying amount of a group of reinsurance contracts held at each reporting date is the sum of the asset/liability for remaining coverage and the asset/liability for incurred claims. The asset/liability for remaining coverage comprise of the fulfilment cash flows related to future service and any remaining CSM. The asset/liability for incurred claims comprise of the fulfilment cash flows related to future services allocated to the group of reinsurance contracts.

The reinsurance CSM is adjusted to reflect the following at the end of each reporting period:

i) the effect of any new contracts added to the group;
ii) interest accretion using the locked-in discount rates;
iii) income recognised in profit or loss in the reporting period related to losses on initial recognition of underlying contracts;
iv) reversals of a loss-recovery component recognised to the extent those reversals are not changes in the fulfilment cash flows of the group of reinsurance contracts held;
v) adjustments to the extent that the changes are due to changes to future service, using locked-in economic conditions;
vi) impact of any currency exchange differences; and
vii) CSM amortisation recognised in the profit or loss for the services received in the period in line with the coverage units released.

Changes in the fulfilment cash flows adjust the CSM if they relate to future coverage and other future services. Changes in fulfilment cash flows related to the change in risk of non-performance by the reinsurer do not relate to future service and do not adjust the reinsurance CSM, rather the change is recognised in the profit or loss.

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

Modification and derecognition

Rothesay derecognises an insurance contract (and reinsurance contract) when:

- *the contract is extinguished – i.e. when the specified obligations in the contract expire or are discharged or cancelled; or*
- *the contract terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised.*

Pension scheme de-risking is generally a two-step process starting with a pension buy-in contract between Rothesay and the pension scheme and followed by conversion from buy-in to buy-out at which point individual contracts are issued to pension scheme members. In general, we do not consider conversion from buy-in to buy-out as a modification and derecognition event, as the terms and conditions of a buy-out are set out in the original buy-in contract and the benefits provided are unchanged. However, we assess the underlying terms and conditions of each contract to assess whether this treatment is appropriate.

When Rothesay acquires books of annuities from other insurers this is usually achieved by initially entering into a reinsurance contract between Rothesay and the insurer selling the block, followed by a Part VII transfer where the individual annuity contracts transfer from the insurer to Rothesay along with any associated reinsurance. Rothesay considers the conversion from reinsurance contracts issued into Part VII as a derecognition event as the Part VII is subject to court approval and there is a legal change in the counterparty. At the Part VII date, we derecognise the carrying amount of the CSM and set up a new CSM based on the fair value of the scheme or group at that date.

Rothesay also carries out scheme upsizes and data cleanses that lead to premium adjustments. Scheme upsizes occur when there is an increase in the scheme liabilities due to additional policyholders or additional benefits to existing policyholders. Data cleanses relate to the process required in updating the liabilities insured with respect to an individual scheme, following changes to use more recent policyholder data rather than the data used when the scheme was initially priced. We assess each scheme upsize and data cleanse premium adjustment by reviewing the terms and conditions of the original scheme contract. If the modification does not result in contract derecognition, we reassess the treatment of the changes in cash flows on a case-by-case basis.

Investment components and premium refunds

Investment components relate to amounts that are payable to policyholders in all circumstances, regardless of whether an insured event occurs. Whilst there are no distinct investment components, our insurance products do often include a non-distinct investment component which is identified at the time when incurred claims and revenue are recognised. Investment components are excluded from insurance revenue and insurance service expenses.

For immediate annuities the investment component is the guaranteed annuity payments specified in the contractual terms.

For deferred annuities that provide policyholders with a right to transfer or commute the contract during the accumulation period, Rothesay determines that these contracts do not include any investment component, because Rothesay is not required to pay any amount if the policyholder does not transfer the contract. Consequently, lump sum payments, including transfer value and pension commencement lump sum payments, are treated as premium refunds. Even though the premium refunds do not represent repayment of investment components, we disclose them together with investment components as their treatment is the same.

Note E – Insurance contracts and reinsurance (continued)

The notes in this section show insurance and reinsurance liability balances as negative numbers.

E.1 Insurance contracts issued – Analysis of liabilities for remaining coverage and incurred claims

The tables below show the roll forward of the liability for insurance contracts issued, showing the liabilities for remaining coverage (excluding loss components) and liabilities for incurred claims.

2023	Liabilities for remaining coverage £m	Liabilities for incurred claims £m	Total £m
Insurance contract liabilities as at 1 January 2023	**(40,971)**	**—**	**(40,971)**
Insurance revenue			
Contracts under fair value approach at transition	**926**	**—**	**926**
New contracts and contracts under full retrospective approach at transition	**2,201**	**—**	**2,201**
Total insurance revenue	**3,127**	**—**	**3,127**
Insurance service expense			
Incurred claims and other incurred insurance service expenses	**—**	**(2,629)**	**(2,629)**
Amortisation of insurance acquisition cash flows	**(29)**	**—**	**(29)**
Total insurance service expense	**(29)**	**(2,629)**	**(2,658)**
Investment components and premium refunds	**349**	**(349)**	**—**
Insurance service results	**3,447**	**(2,978)**	**469**
Finance expense from insurance contracts issued	**(4,380)**	**—**	**(4,380)**
Total change in profit or loss	**(933)**	**(2,978)**	**(3,911)**
Cash flows			
Premiums received	**(12,827)**	**—**	**(12,827)**
Claims and other expenses paid	**—**	**2,629**	**2,629**
Investment components and premium refunds	**—**	**349**	**349**
Insurance acquisition cash flows	**141**	**—**	**141**
Insurance acquisition asset	**(40)**	**—**	**(40)**
Total cash flows	**(12,726)**	**2,978**	**(9,748)**
Insurance contract liabilities as at 31 December 2023	**(54,630)**	**—**	**(54,630)**

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.1 Insurance contracts issued – Analysis of liabilities for remaining coverage and incurred claims (continued)

2022	Liabilities for remaining coverage £m	Liabilities for incurred claims £m	Total £m
Insurance contract liabilities as at 1 January 2022	(55,237)	—	(55,237)
Insurance revenue			
Contracts under fair value approach at transition	858	—	858
New contracts and contracts under full retrospective approach at transition	2,033	—	2,033
Total insurance revenue	2,891	—	2,891
Insurance service expense			
Incurred claims and other incurred insurance service expenses	—	(2,507)	(2,507)
Amortisation of insurance acquisition cash flows	(23)	—	(23)
Total insurance service expense	(23)	(2,507)	(2,530)
Investment components and premium refunds	474	(474)	—
Insurance service results	3,342	(2,981)	361
Finance income from insurance contracts issued	14,189	—	14,189
Total change in profit or loss	17,531	(2,981)	14,550
Cash flows			
Premiums received	(3,384)	—	(3,384)
Claims and other expenses paid	—	2,507	2,507
Investment components and premium refunds	—	474	474
Insurance acquisition cash flows	79	—	79
Insurance acquisition asset	40	—	40
Total cash flows	(3,265)	2,981	(284)
Insurance contract liabilities as at 31 December 2022	(40,971)	—	(40,971)

Note E – Insurance contracts and reinsurance (continued)

E.2 Reinsurance contracts held – Analysis of liabilities for remaining coverage and incurred claims

The table below shows the roll forward of the net liability for reinsurance contracts held, showing the liabilities for remaining coverage (excluding loss-recovery component) and amounts recoverable on incurred claims arising on business ceded to reinsurers.

2023	Liabilities for remaining coverage £m	Asset for incurred claims £m	Total £m
Reinsurance contract liabilities as at 1 January 2023	(848)	—	(848)
Reinsurance contract assets as at 1 January 2023	54	—	54
Net reinsurance contract liabilities as at 1 January 2023	(794)	—	(794)
Allocation of reinsurance premiums paid			
Amounts relating to the changes in the liabilities for remaining coverage	(2,175)	—	(2,175)
Amortisation of reinsurance acquisition cash flows	2	—	2
Total allocation of reinsurance premiums paid	(2,173)	—	(2,173)
Amounts recoverable from reinsurers			
Amounts recoverable for claims and other expenses incurred during the year	—	2,126	2,126
Amortisation of reinsurance acquisition cash flows	(2)	—	(2)
Total amounts recoverable from reinsurers	(2)	2,126	2,124
Net expense from reinsurance contracts held	(2,175)	2,126	(49)
Finance income from reinsurance contracts held	391	—	391
Total change in profit or loss	(1,784)	2,126	342
Cash flows			
Premiums paid	2,273	—	2,273
Amounts received	—	(2,126)	(2,126)
Acquisition cash flows	60	—	60
Total cash flows	2,333	(2,126)	207
Net reinsurance contract liabilities as at 31 December 2023	(245)	—	(245)
Reinsurance contract liabilities as at 31 December 2023	(461)	—	(461)
Reinsurance contract assets as at 31 December 2023	216	—	216

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.2 Reinsurance contracts held – Analysis of liabilities for remaining coverage and incurred claims (continued)

2022	Liabilities for remaining coverage £m	Asset for incurred claims £m	Total £m
Reinsurance contract liabilities as at 1 January 2022	(971)	—	(971)
Reinsurance contract assets as at 1 January 2022	38	—	38
Net reinsurance contract liabilities as at 1 January 2022	(933)	—	(933)
Allocation of reinsurance premiums paid			
Amounts relating to the changes in the liabilities for remaining coverage	(2,080)	—	(2,080)
Amortisation of reinsurance acquisition cash flows	2	—	2
Total allocation of reinsurance premiums paid	(2,078)	—	(2,078)
Amounts recoverable from reinsurers			
Amounts recoverable for claims and other expenses incurred during the year	—	2,051	2,051
Amortisation of reinsurance acquisition cash flows	(2)	—	(2)
Total amounts recoverable from reinsurers	(2)	2,051	2,049
Net expense from reinsurance contracts held	(2,080)	2,051	(29)
Finance income from reinsurance contracts held	44	—	44
Total change in profit or loss	(2,036)	2,051	15
Cash flows			
Premiums paid	2,175	—	2,175
Amounts received	—	(2,051)	(2,051)
Total cash flows	2,175	(2,051)	124
Net reinsurance contract liabilities as at 31 December 2022	(794)	—	(794)
Reinsurance contract liabilities as at 31 December 2022	(848)	—	(848)
Reinsurance contract assets as at 31 December 2022	54	—	54

At 31 December 2023 and 31 December 2022, Rothesay conducted an impairment review of the reinsurance assets and found no impairment necessary.

Note E – Insurance contracts and reinsurance (continued)

E.3 Insurance contracts issued – Analysis of the measurement components of contract balances

This reconciliation presents a roll-forward of the liability for insurance contracts issued showing estimates of the present value of future cash flows, risk adjustment and CSM for the portfolio's insurance service results during the year.

			Contractual service margin		
2023	Estimates of the present value of future cash flows £m	Risk adjustment £m	Contracts under fair value approach at transition £m	New contracts and contracts under full retrospective approach at transition £m	Total £m
Insurance contract liabilities as at 1 January 2023	**(34,521)**	**(1,512)**	**(773)**	**(4,165)**	**(40,971)**
Changes that relate to current services					
CSM recognised for services provided during the year	**—**	**—**	**78**	**364**	**442**
Change in risk adjustment for the risk expired	**—**	**8**	**—**	**—**	**8**
Experience adjustments relating to insurance service expenses	**19**	**—**	**—**	**—**	**19**
Changes that relate to future services					
Contracts initially recognised during the year	**825**	**(447)**	**—**	**(378)**	**—**
Changes in estimates that adjust the CSM	**1,078**	**547**	**(486)**	**(1,139)**	**—**
Insurance service results	**1,922**	**108**	**(408)**	**(1,153)**	**469**
Finance expense from insurance contracts issued	**(3,977)**	**(291)**	**(18)**	**(94)**	**(4,380)**
Total changes in profit or loss	**(2,055)**	**(183)**	**(426)**	**(1,247)**	**(3,911)**
Cash flows					
Premiums received	**(12,827)**	**—**	**—**	**—**	**(12,827)**
Claims and other expenses paid	**2,629**	**—**	**—**	**—**	**2,629**
Investment components and premium refunds	**349**	**—**	**—**	**—**	**349**
Insurance acquisition cash flows	**141**	**—**	**—**	**—**	**141**
Insurance acquisition asset	**(40)**	**—**	**—**	**—**	**(40)**
Total cash flows	**(9,748)**	**—**	**—**	**—**	**(9,748)**
Insurance contract liabilities as at 31 December 2023	**(46,324)**	**(1,695)**	**(1,199)**	**(5,412)**	**(54,630)**

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.3 Insurance contracts issued – Analysis of the measurement components of contract balances (continued)

2022	Estimates of the present value of future cash flows £m	Risk adjustment £m	Contractual service margin: Contracts under fair value approach at transition £m	Contractual service margin: New contracts and contracts under full retrospective approach at transition £m	Total £m
Insurance contract liabilities as at 1 January 2022	(48,028)	(2,914)	(671)	(3,624)	(55,237)
Changes that relate to current services					
CSM recognised for services provided during the year	—	—	56	277	333
Change in risk adjustment for the risk expired	—	24	—	—	24
Experience adjustments relating to insurance service expenses	4	—	—	—	4
Changes that relate to future services					—
Contracts initially recognised during the year	486	(144)	—	(342)	—
Changes in estimates that adjust the CSM	399	158	(147)	(410)	—
Insurance service results	889	38	(91)	(475)	361
Finance income/(expense) from insurance contracts issued	12,902	1,364	(11)	(66)	14,189
Total changes in profit or loss	13,791	1,402	(102)	(541)	14,550
Cash flows					
Premiums received	(3,384)	—	—	—	(3,384)
Claims and other expenses paid	2,507	—	—	—	2,507
Investment components and premium refunds	474	—	—	—	474
Insurance acquisition cash flows	79	—	—	—	79
Insurance acquisition asset	40	—	—	—	40
Total cash flows	(284)	—	—	—	(284)
Insurance contract liabilities as at 31 December 2022	(34,521)	(1,512)	(773)	(4,165)	(40,971)

Note E – Insurance contracts and reinsurance (continued)

E.4 Reinsurance contracts held – Analysis of the measurement components of contract balances

The tables below show the roll-forward of the net asset or liability for reinsurance contracts held, showing estimates of the present value of future cash flows, risk adjustment and CSM for reinsurance held portfolios during the year.

			Contractual service margin		
2023	Estimates of the present value of future cash flows £m	Risk adjustment £m	Contracts under fair value approach at transition £m	New contracts and contracts under full retrospective approach at transition £m	Total £m
Reinsurance contract liabilities as at 1 January 2023	(2,135)	1,039	161	87	(848)
Reinsurance contract assets as at 1 January 2023	(309)	134	—	229	54
Net reinsurance contract liabilities as at 1 January 2023	(2,444)	1,173	161	316	(794)
Changes that relate to current services					
CSM recognised for services received during the year	—	—	(17)	(26)	(43)
Experience adjustments relating to incurred claims and other directly attributable expenses recovery	(6)	—	—	—	(6)
Changes that relate to future services					
Contracts initially recognised during the year	(230)	418	—	(188)	—
Changes in estimates that adjust the CSM	(492)	(677)	332	837	—
Net expense from reinsurance contracts held	(728)	(259)	315	623	(49)
Finance income from reinsurance contracts held	110	277	1	3	391
Total changes in profit or loss	(618)	18	316	626	342
Cash flows					
Premiums paid	2,273	—	—	—	2,273
Amounts received	(2,126)	—	—	—	(2,126)
Acquisition cash flows	60	—	—	—	60
Total cash flows	207	—	—	—	207
Net reinsurance contract liabilities as at 31 December 2023	(2,855)	1,191	477	942	(245)
Reinsurance contract liabilities as at 31 December 2023	(2,078)	518	477	622	(461)
Reinsurance contract assets as at 31 December 2023	(777)	673	—	320	216

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.4 Reinsurance contracts held – Analysis of the measurement components of contract balances (continued)

			Contractual service margin		
2022	Estimates of the present value of future cash flows £m	Risk adjustment £m	Contracts under fair value approach at transition £m	New contracts and contracts under full retrospective approach at transition £m	Total £m
Reinsurance contract liabilities as at 1 January 2022	(2,673)	1,685	69	(52)	(971)
Reinsurance contract assets as at 1 January 2022	(555)	606	—	(13)	38
Net reinsurance contract liabilities as at 1 January 2022	(3,228)	2,291	69	(65)	(933)
Changes that relate to current services					
CSM recognised for services received during the year	—	—	(6)	(19)	(25)
Change in risk adjustment for the risk expired	—	(5)	—	—	(5)
Experience adjustments relating to incurred claims and other directly attributable expenses recovery	1	—	—	—	1
Changes that relate to future services					
Contracts initially recognised during the year	(99)	118	—	(19)	—
Changes in estimates that adjust the CSM	(335)	(179)	97	417	—
Net expense from reinsurance contracts held	(433)	(66)	91	379	(29)
Finance income/(expense) from reinsurance contracts held	1,093	(1,052)	1	2	44
Total changes in profit or loss	660	(1,118)	92	381	15
Cash flows					
Premiums paid	2,175	—	—	—	2,175
Amounts received	(2,051)	—	—	—	(2,051)
Total cash flows	124	—	—	—	124
Net reinsurance contract liabilities as at 31 December 2022	(2,444)	1,173	161	316	(794)
Reinsurance contract liabilities as at 31 December 2022	(2,135)	1,039	161	87	(848)
Reinsurance contract assets as at 31 December 2022	(309)	134	—	229	54

Note E – Insurance contracts and reinsurance (continued)

E.5 Insurance contracts issued and reinsurance held initially recognised during the year

This note presents the components of new business for insurance contracts issued and reinsurance contracts held measured at initial recognition. All groups of contracts written during the year and in 2022 are non-onerous at initial recognition and none fall into the “Contracts that have no significant possibility of becoming onerous subsequently” classification.

(a) New insurance contracts issued

	Contracts issued	
	2023 £m	2022 £m
Estimates of present value of future cash inflows	**12,694**	3,295
Estimates of present value of future cash outflows, including estimates of acquisition cash flows	**(11,869)**	(2,809)
Risk adjustment for non-financial risk	**(447)**	(144)
CSM	**(378)**	(342)
Losses recognised on initial recognition	**—**	—

(b) New reinsurance contracts

All of our longevity reinsurance agreements are unfunded, i.e. we retain the assets and pay a series of reinsurance premiums based on expected longevity and receive a series of reinsurance claim amounts based on actual experience. The contracts written in the year and in 2022 provided longevity reinsurance in relation to profitable underlying insurance contracts and therefore these reinsurance contracts held are initiated without the loss-recovery component. Contracts are split between those for which the CSM is positive (shown as ‘Net cost’) and those for which the CSM is negative (shown as ‘Net gain’). No new contracts in 2023 are ‘Net cost’.

	New reinsurance contracts			
	2023		2022	
	Net cost £m	Net gain £m	Net cost £m	Net gain £m
Estimates of present value of future cash inflows	**—**	**10,081**	1,055	831
Estimates of present value of future cash outflows, including estimates of acquisition cash flows	**—**	**(10,311)**	(1,130)	(855)
Risk adjustment for non-financial risk	**—**	**418**	71	47
CSM	**—**	**(188)**	4	(23)
Amount included in reinsurance contract assets for the year	**—**	**—**	—	—

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.6 Contractual Service Margin recognition expectation in the profit and loss

In determining the CSM amortisation, we consider the services delivered under the contract and define the coverage units that should be used to amortise the CSM over time. The CSM is amortised in line with the release of the coverage units during the year as the services are provided to the policyholders.

The methods used to measure the coverage units for both immediate and deferred annuities require significant judgement. We define the coverage units as the quantity of benefit provided as part of the insurance service as the expected payment due to the policyholder during the year contingent on the insured event occurring (i.e. survival until the payment date). For reinsurance contracts held, the insured event is the survival of the reinsured policyholder until the payment date, with the payment being that due from the reinsurer to Rothesay under the terms of the contract (see note A.1).

For deferred annuities, the services delivered include both the insurance service and the investment return service. Rothesay uses judgement in assessing the quantity of benefits by determining the relative weighting of the benefits provided to the policyholder by these services. To determine the relative weighting of the benefits provided by insurance coverage (which represents the whole period of an immediate annuity) and investment services (provided in the deferred phase of the annuity before vesting and in any guaranteed period), the coverage units across the deferred and in-payment periods are combined (or 'blended') to create a profile of expected CSM amortisation across the lifetime of the contract. The blended coverage units are calculated by appropriately weighting the expected insurance and investment return service coverage units such that by the time a deferred annuitant reaches retirement, the CSM is consistent with that of an equivalent immediate annuitant, and ensures that the relative values ascribed to the different services are consistent throughout the CSM amortisation over the lifetime of the contract.

For immediate annuities, the services delivered also include both the insurance service and the investment return service (provided during the guaranteed period). The insurance services provided during the in-payment phase are the annuity cash flow payments, which are outside the guaranteed period, expected to be paid out in the event of the insured event occurring (i.e. survival of the policyholders).

The following table presents the projected release of the CSM into future period maturity buckets.

2023	0-5 years £m	5-10 years £m	More than 10 years £m	Total £m
Insurance contracts issued	**1,735**	**1,340**	**3,536**	**6,611**
Reinsurance contracts held	**(390)**	**(336)**	**(693)**	**(1,419)**
Net CSM release	**1,345**	**1,004**	**2,843**	**5,192**

2022	0-5 years £m	5-10 years £m	More than 10 years £m	Total £m
Insurance contracts issued	1,201	921	2,816	4,938
Reinsurance contracts held	(136)	(113)	(228)	(477)
Net CSM release	1,065	808	2,588	4,461

Note E – Insurance contracts and reinsurance (continued)

E.7 Significant judgements and estimates in determining the value of fulfilment cash flows

The fulfilment cash flows include estimates of future cash flows, adjusted to reflect the time value of money, and a risk adjustment for non-financial risk (as described in note E.7(f)).

Estimate of future cash flows

In estimating future cash flows, we incorporate all reasonable and supportable information that is available without undue cost or effort at the reporting date. The estimates of future cash flows reflect our view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market prices. In estimating the future cash flows, we determine the cash flows to be included and how these are derived, and the boundary of insurance contracts.

Cash flows within the boundary of an insurance or reinsurance contract are those that relate directly to the fulfilment of the contract, which include:

a) Policyholder premiums including premium adjustments;
b) Policyholder claims and benefit payments, including annuity payments, death benefit lump sums, pension commencement lump sums, guarantee period cash flows and transfer value lump sums;
c) Insurance acquisition cash flows from writing new business; and
d) Other costs and expenses which relate to directly fulfilling the obligations within the contract such as claims handling costs, policy administration and maintenance costs, premium taxes, allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts, investment management expenses to the extent that they enhance benefits from insurance coverage, and any other costs that may be charged specifically to the policyholder under the terms of the contract.

The determination of the contract boundary is described at the beginning of note E.

In determining the best estimate cash flows, we use observable market variables (or economic variables) and non-market variables (or demographic variables). Estimates of economic variables are consistent with observable market prices, while demographic variables reflect all reasonable and supportable evidence available without undue cost or effort. Below are the key economic and demographic variables or assumptions with the greatest impact on Rothesay's insurance and reinsurance contract liability and asset valuations under IFRS 17.

(a) Mortality assumptions

The adoption of IFRS 17 has not impacted the way in which best estimate mortality assumptions have been determined. Best estimate mortality assumptions are determined separately for each insurance contract (with consistent assumptions used when valuing reinsurance contracts). The resulting assumptions are equivalent to using the base mortality assumptions set out in the table below:

	2023		2022	
	Pensions originated	Insurance originated	Pensions originated	Insurance originated
Males	**105.9% S3PMA**	**101.1% S3PMA**	105.7% S3PMA	102.1% S3PMA
Females	**105.9% S3PFA**	**101.1% S3PFA**	105.7% S3PFA	102.1% S3PFA

For pension scheme originated business, ultimate mortality has been used in all cases. For insurance originated business, the stated base mortality basis incorporates the effect of selection adjustments for relevant policies.

Recent mortality experience is analysed annually for each pension scheme and for insurance originated business. The last review was carried out during 2023. The best estimate base mortality assumptions used in the valuation are based on this actual mortality experience. Mortality experience has been compared to expected levels with allowance for population level experience, hence heavy experience due to the COVID-19 pandemic has not been projected indefinitely. Mortality assumptions are generally set with reference to a Rothesay-specific suite of mortality tables. For the purpose of our reporting disclosures, these have been expressed as a single adjustment equivalent to the CMI S3 series of mortality tables drawn up by the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries. The S3 tables are based on industry-wide experience. For the S3 tables, past mortality improvements are applied assuming the base mortality rates are as at 2013.

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)
E.7 Significant judgements and estimates in determining the value of fulfilment cash flows (continued)
(a) Mortality assumptions (continued)
The changes to the single equivalent rates over 2023 reflect the inclusion of new business, differences from expected mortality in recent years and the impact of updating the mortality improvements used to roll the base tables forward to the current date.

Mortality improvements used to roll base tables forward to the current date use an advanced calibration of the CMI 2022 model with limited period smoothing and including 2020 to 2022 experience in order to represent realised population mortality improvements. This is allowed for in the base table and mortality improvement equivalents shown in the preceding/proceeding tables.

Allowance is made for future improvements in annuitant mortality with reference to statistical analysis of historical rates of mortality improvements, expert judgement of future changes in mortality improvements, industry benchmarking and reinsurance pricing. During 2023 mortality improvement assumptions were updated to reflect recent mortality improvements, including adoption of the CMI 2022 improvement model. The CMI 2022 model places no weight on 2020 or 2021 data, and limited weight on 2022 data, which significantly reduces the impact of COVID-19 on our improvement projections. For both 2022 and 2023, an advanced calibration of the model has been used.

The chosen long-term improvement rate assumption varies by age using a bespoke calibration that tapers non-linearly from age 70 to 0% at age 120. The long-term rates in the table below are expressed as core CMI model long-term rates and are equivalent on a present value basis to the actual long-term rate adopted. The best estimate long-term improvement rates remain unchanged from 2022. The assumed initial rates of improvements as at 31 December 2023 have been lowered compared to those used as at 31 December 2022. The initial adjustment parameter ("A" parameter) has not been adopted, with adjustment to the initial rate of mortality improvements continuing to be made through the Sk parameter. Best estimate improvements are equivalent to those shown in the table below:

	Future mortality improvements (excluding margins)	
	2023	2022
Males	**CMI_2022*_M[1.7%; Sκ=7.4]**	CMI_2021*_M[1.7%; Sκ=7.5]
Females	**CMI_2022*_F[1.7%; Sκ=7.4]**	CMI_2021*_F[1.7%; Sκ=7.5]

* Calibration ages 20-90

The impact of the assumption changes can be seen through the changes in estimates that adjust the CSM in notes E3 and E4. These estimates are shown on a locked-in rate basis. Due to the significant increase in interest rates since many of the schemes were written, a material offset is included through Insurance Finance Expense reflecting the impacts being significantly smaller when calculating the change in present value of future cash flows and risk adjustment using current interest rates.

(b) Discount rates
Under IFRS 17, the discount rate used must reflect the characteristics of the liabilities both in terms of timing and liquidity. The rate can be determined using either a bottom-up or a top-down approach. Under a bottom-up approach the discount rate is based on a liquid risk-free yield curve and then an addition is made to reflect the differences between the liquidity characteristics of the financial instruments that underlie the rates observed in the market and the liquidity characteristics of the insurance contracts. Rothesay uses judgement to assess liquidity characteristics of the liability cash flows. Where the asset cash flows do not perfectly match the liability cash flows a reinvestment assumption is assumed for the rate at which surplus asset cash flows within the asset model are reinvested. Under a top-down approach the discount rate is based on a yield curve that reflects the current market rates of return of a reference portfolio of assets adjusted to eliminate any factors that are not relevant to the insurance contracts, including credit risk. The reference portfolio comprises a mix of assets that Rothesay owns or expects to buy backing insurance liabilities, such as sovereign bonds, corporate bonds, infrastructure and secure illiquid assets, which in aggregate closely match the cashflow profile of the liabilities. As such it is materially equivalent, and similar in composition to the total portfolio owned by Rothesay as detailed in note D.

Note E – Insurance contracts and reinsurance (continued)

E.7 Significant judgements and estimates in determining the value of fulfilment cash flows (continued)

(b) Discount rates (continued)

We apply separate discount rates to value our insurance contracts and our longevity swap reinsurance contracts.

- For insurance contracts, we use a top-down approach to derive the discount curve based on the market consistent rate of return on a reference portfolio of assets appropriate to back the liabilities. In determining the rate of return on the assets in the reference portfolio, a deduction is made to reflect retained risks, i.e. credit default risk and property price risk.
- For collateralised longevity swap reinsurance contracts, we use a bottom-up approach which reflects the overall higher liquidity of assets cash flows which can be posted as collateral under the relevant contracts.

We use discount rates to measure the BEL and RA and to determine the interest to accrete on the CSM, to measure the impact of adjustments to the CSM, and to derive the amortisation profile for CSM recognised during the year. The locked-in rates used for the CSM calculations for insurance and reinsurance contracts are in line with the discount rates used to discount the projected BEL and RA at initial recognition.

At the transition date, the CSM is calculated as the fair value of a group of insurance contracts, less the BEL and RA. In determining what the fair value price is, Rothesay has applied the IFRS 13 'Fair Value Measurement' using information available at the transition date. The fair value of an insurance liability is the price that a market participant would be willing to pay to assume the obligation and the remaining risks (which Rothesay calculated based on business written by Rothesay and its competitors). Using the fair value methodology in conjunction with the CSM cash flows, we are then able to determine the appropriate locked-in rate (see note A.4 for further details). The table below summarises the overall weighted average discount rate, and spread above the risk-free curve (SONIA), for determining the BEL and RA for insurance contracts issued and reinsurance contracts held.

	2023 bps	2022 bps
Risk-free rate	**330**	355
Spread above risk-free rate	**141**	154
Aggregate discount rate	**471**	509

(c) Other economic assumptions

An important actuarial assumption relates to the future rate of escalation of certain annuity benefits. Where possible such rates are derived from inflation swap markets. Whilst that is still the case for more liquid inflation rates, there is not a sufficiently deep, liquid market to support setting the rate of limited price indexation (LPI). We have therefore projected these rates using LPI models based on realised LPI and other market inputs.

(d) Expense assumptions

Rothesay includes estimates of future expenses relating to fulfilment of contracts within the scope of IFRS 17 in the measurement of insurance contracts. These expenses include those attributable to the groups of contracts, which include an allocation of fixed and variable overheads. The allowance made for future expenses was updated at the end of 2023 following an investigation into the total costs incurred by Rothesay during 2023 and projected 2024 expenses.

The insurance contract liabilities future cashflows include both the projected expenses payable under the third party administration agreements and the long-term business overhead expenses expressed as an amount per policy. The average per policy allowance is £48 per policy per annum (2022: £40 per policy per annum). Additional allowances are then made for short-term project costs and investment management expenses.

Within these expense provisions, an allowance for future expense inflation has been made to cover the impact of both salary and price inflation. The future rate of expense inflation is assumed to be RPI (as implied by the RPI swap curve) for maintenance expenses, with an additional 0.25% p.a on some expenses.(2022: 0.25% p.a on some expenses).

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)
E.7 Significant judgements and estimates in determining the value of fulfilment cash flows (continued)
(e) Risk adjustment (RA)
The RA reflects the compensation that Rothesay requires for bearing the non-financial uncertainty in the liabilities. The RA is an explicit measurement of the non-financial risks based on Rothesay's view of the economic burden imposed by the non-financial risks associated with the insurance contracts.

In determining the RA, we reflect this compensation by using the provision for adverse deviation approach (the PAD approach), under which we apply margins to the best estimates for demographic and expense risks. Allowances are also made for directly attributable operational risk and diversification between these risk factors.

The key risk factors considered in the RA for insurance contracts and the approach to calculating these risks include:

- Longevity/mortality risk margins are applied to the best estimate assumptions which are set based on quotes obtained for longevity reinsurance pricing, which represents the market price of longevity risk, which Rothesay considers an appropriate compensation for this risk.
- Spouse ratio/financial dependant risk margins are applied to the best estimate assumption used, which Rothesay considers an appropriate compensation for this risk.
- Expense risk, including both level and expense inflation risk. Expense level risk corresponds to the risk of an immediate and permanent change in the reserved expense levels, and expense inflation risk corresponds to the risk that the expenses increase in the future at a different rate to that assumed in the best estimate reserves. A fixed percentage increase over the best estimate assumptions is used for expense risk and expense inflation. Rothesay considers expense inflation based on an index as a financial risk, but any growth assumption basis above the index is considered a non-financial risk which is considered in the risk adjustment.

The calibration of these parameters is in line with the calibration of the underlying best estimate assumptions for these risk factors which is typically annually. The RA calibration for longevity risk and spousal risk were recalibrated for YE23. The recalibration reduced the size of the RA for longevity risk, reflecting a reduction in the market price of longevity risk, and an increase in the allowance for spousal risk. The confidence level reduces slightly as a result of the changes. The impact of the assumption changes can be seen through the changes in estimates that adjust the CSM in notes E3 and E4. These estimates are shown on a locked-in rate basis. Due to the significant increase in interest rates since many of the schemes were written a material offset is included through Insurance Finance Expense reflecting the impacts being significantly smaller when calculating the change in risk adjustment using current interest rates.

Allowance in the RA is also made for less significant risk factors such as risk of data error and impact of the timing of retirement. For reinsurance contracts held, the risk factors considered in determining the risk adjustment include the longevity/mortality risk and spouse/financial dependant risk. A consistent technique is applied to both insurance and reinsurance contracts, with the RA related to reinsurance reflecting the marginal change in RA as a result of transacting reinsurance contracts. Changes in RA are taken through profit and loss, rather than other comprehensive income.

We estimate that the calculated RA corresponds to a confidence level as follows:

Net of reinsurance	2023	2022
Confidence level – 1 year basis	**91%**	92%
Confidence level – ultimate basis	**65%**	65%

The confidence level on an ultimate basis is derived by comparing the value of the RA to the relevant one year, 1-in-200 Solvency SII SCR stresses on an IFRS 17 basis, projected for the lifetime of the liabilities. Confidence levels may vary from period to period due to changes in economic conditions or changes in the risk profile.

Note E – Insurance contracts and reinsurance (continued)

E.7 Significant judgements and estimates in determining the value of fulfilment cash flows (continued)

(f) Timing of cash flows

The table below shows the estimates of the present value of future cash flows of the insurance contract liabilities and reinsurance contract liabilities that are expected to arise during each year:

	2023			
	0-5 years £m	6 to 10 years £m	More than 10 years £m	Total £m
Insurance contract liabilities	**(14,289)**	**(11,284)**	**(20,751)**	**(46,324)**
Reinsurance contract liabilities	**(466)**	**(469)**	**(1,143)**	**(2,078)**

	2022			
	0-5 years £m	6 to 10 years £m	More than 10 years £m	Total £m
Insurance contract liabilities	(11,315)	(8,559)	(14,647)	(34,521)
Reinsurance contract liabilities	(508)	(473)	(1,154)	(2,135)

There are no amounts payable on demand as at 31 December 2023 (2022: £nil). Of the total estimates of the present value of future cash flows of insurance contract liabilities, £43.5bn (2022: £32.3bn) is expected to be settled more than 12 months after the reporting date. Of the total estimates of the present value of future cash flows of reinsurance contract liabilities, £2.0bn (2022: £2.1bn) is expected to be settled more than 12 months after the reporting date.

For deferred annuities, the services Rothesay delivers include both insurance service and investment return service. Rothesay exercises judgement in assessing the quantity of benefits by determining the relative weighting of the benefits provided to the policyholder by each of these services (see note E.6 for further details).

(g) Credit risk analysis

Long-term business is ceded to reinsurers under collateralised contracts to transfer part of the insurance risk associated with the underlying insurance contracts. The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of the reinsurance company.

At 31 December 2023, the maximum exposure to credit risk arising from reinsurance contract assets prior to allowance for collateral is £91m (2022: £25m). The credit quality of reinsurance contract assets include £86m of AA and £5m of A (2022: £25m of AA). The ratings are generally based on the median of the ratings assigned by Standard & Poor's, Moody's and Fitch.

E.8 Sensitivity analysis

We assess the significant assumptions in measuring insurance and reinsurance contracts and provide sensitivities to the changes in the most material assumptions below. The schedule below provides an analysis of the reasonably possible movements in key assumptions that would have a material impact on adjusted operating profit **(APM)**, profit before tax (PBT) and equity, at gross and net of reinsurance. Analysis is shown separately for adjusted operating profit **(APM)** and PBT because the former excludes the impact of assumption changes on the CSM. We have assessed the key risks in our insurance contracts and have shown the sensitivities of the material risks. The analysis is based on a change in a single assumption whilst holding all other assumptions constant. The analysis assumes an instantaneous shock to the assumptions other than for the interest rate and inflation sensitivities where the impact of dynamic hedging is allowed for as market conditions change.

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.8 Sensitivity analysis (continued)

Sensitivities for 2022 have been restated to reflect the impact of the adoption of IFRS 17.

2023	Change in assumptions	Increase/(Decrease) in adjusted operating profit (APM) Gross £m	Net £m	Increase/(Decrease) in PBT Gross £m	Net £m	Impact on equity Gross £m	Net £m
Annuitant mortality	+5% qx	**837**	**117**	**(371)**	**(59)**	**(284)**	**(45)**
Annuitant mortality	-5% qx	**(884)**	**(119)**	**374**	**55**	**286**	**42**
Interest rate	+100bps	**—**	**—**	**(931)**	**(853)**	**(712)**	**(653)**
Interest rate	-100bps	**—**	**—**	**1,158**	**1,097**	**886**	**839**
Inflation	+100bps	**—**	**—**	**562**	**555**	**430**	**424**
Inflation	-100bps	**—**	**—**	**(431)**	**(419)**	**(330)**	**(320)**
Credit spread widening	+100bps	**—**	**—**	**(427)**	**(329)**	**(327)**	**(252)**
Change in property prices	+10%	**—**	**—**	**68**	**67**	**52**	**52**
Change in property prices	-10%	**—**	**—**	**(104)**	**(103)**	**(79)**	**(79)**
Expenses	+10%	**(100)**	**(100)**	**39**	**39**	**30**	**30**

2022	Change in assumptions	Increase/(Decrease) in adjusted operating profit (APM) Gross £m	Net £m	Increase/(Decrease) in PBT Gross £m	Net £m	Impact on equity Gross £m	Net £m
Annuitant mortality	+5% qx	639	76	(427)	(42)	(346)	(34)
Annuitant mortality	-5% qx	(675)	(77)	418	38	338	31
Interest rate	+100bps	—	—	(361)	(303)	(292)	(245)
Interest rate	-100bps	—	—	446	397	361	322
Inflation	+100bps	—	—	347	346	281	280
Inflation	-100bps	—	—	(242)	(237)	(196)	(192)
Credit spread widening	+100bps	—	—	(425)	(322)	(344)	(261)
Change in property prices	+10%	—	—	39	38	32	31
Change in property prices	-10%	—	—	(61)	(60)	(50)	(49)
Expenses	+10%	(81)	(81)	36	36	29	29

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

The annuitant mortality sensitivity is defined in terms of a qx stress, where qx represents the probability of a life dying during the year. Given the qx stress relates to a non-economic assumption, any changes in the BEL and RA also lead to an adjustment of the CSM using locked-in economic conditions from group inception. As most historic business was incepted at a time when long-term interest rates were significantly lower than as at year end 2023, the impact of the qx stress on the CSM is larger than on the BEL and RA. This results in the impact on IFRS 17 profits being the opposite of that which might be expected (and which would be seen on other financial metrics), i.e. an increase in longevity would result in an increase in IFRS profits. This was also the case for the 2022 comparatives.

Note F – Risk and capital management

F.1 Capital management

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

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

Rothesay operates under the Solvency II regime. Rothesay had sufficient capital available to meet its regulatory capital requirements at all times during the year ended 31 December 2023.

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

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

Transitional solvency relief was recalculated as at 31 December 2023 and amortises by 1/16th each year from January 2017. As at 31 December 2023, solvency estimates allow for amortisation of 7/16ths of transitional solvency relief (2022: 6/16ths).

Rothesay's application to use a full internal model (FIM) for the calculation of the SCR was approved by the PRA for use from 30 June 2023. The FIM means that Rothesay's bespoke models are used for calculation of all risks and ensure that the allocation of capital to investment is consistent with the risk inherent in the types of highly secured and collateralised investments which are core to Rothesay's investment strategy.

Notes to the financial statements continued

Note F – Risk and capital management (continued)

F.1 Capital management (continued)

Capital in excess of that required to meet the technical provisions is known as Own Funds. As at 31 December 2023, Own Funds for Rothesay were £8,776m (unaudited) (2022: £8,066m) made up as follows:

	2023 unaudited £m	2022 restated £m
Total IFRS equity, as previously reported	**n/a**	6,176
Impact of initial application of IFRS 17, net of tax	**n/a**	(1,199)
Decrease in profit or loss due to IFRS 17 application	**n/a**	(920)
Total IFRS equity, as restated	**4,351**	4,057
Liability valuation differences and other regulatory adjustments	**2,565**	2,726
Total Tier 1	**6,916**	6,783
Tier 2 debt valuation	**1,402**	849
Tier 3 debt valuation	**458**	434
Own Funds available to meet SCR	**8,776**	8,066
Own Funds eligible to meet SCR	**8,466**	8,066

Note that as at 31 December 2023, only £8,466m (unaudited) Own Funds were eligible to meet the SCR, whereas in 2022, all of the Own Funds were eligible.

Rothesay holds both debt and equity to optimise its capital structure and improve shareholder return. During 2023, £500m of Tier 2 notes were issued by Rothesay to provide additional capital for new business. Given Rothesay's solvency position and, in particular, the size of the SCR, some capital is not currently eligible as Own Funds to meet SCR. However, as we continue to write new business, solvency capital requirements will increase and all the capital will become fully eligible.

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

Note F – Risk and capital management (continued)

F.2 Risk management and analysis

Rothesay is exposed to credit, market and liquidity risk through its financial assets and financial liabilities. Rothesay is exposed to insurance risk through its insurance liabilities and to operational risk as a result of its activities. These risks are described below and are managed in accordance with risk management policies and procedures established by Rothesay.

Climate change risk is considered within the relevant risk type, for example credit risk includes the potential impact of climate change on the creditworthiness of counterparties.

Please see pages 49 to 59 of the Strategic Report for further detail on risk management arrangements and the governance framework within Rothesay. Please refer to Rothesay's latest Climate Report for further detail on our commitments and progress towards net zero.

F.2.1 Credit risk

Credit risk represents the potential for loss, or solvency deterioration, due to the default or deterioration in credit quality of a counterparty or an investment we hold. In some instances this risk may arise as a result of climate change, for example the risk of stranded assets, potential litigation exposure or the impact of sustainability considerations, including climate change on a counterparty's assets and/or liabilities. Credit risk also arises from cash placed with banks or money market funds, collateralised financing transactions (i.e. resale and repurchase agreements) and receivables from third parties.

Management is responsible and accountable for managing credit risks within prescribed limits. Effective management of credit risk requires disciplined underwriting, accurate and timely information, strong collateral management, a high level of communication and knowledge of customers, countries, industries and products. We continue to actively monitor and manage potential downgrade risk across the investment portfolio, particularly as continued sustained inflation and uncertain central bank monetary responses may drive macro and individual counterparty weakness.

The independent Risk function, led by the CRO, has responsibility for ensuring an appropriate framework is in place for assessing and monitoring credit risk. All credit exposures are actively monitored by the Risk function, including the use of regular sector and position reviews and a number of early warning indicators, resulting in regular reporting to the investment team and key governance bodies such as the Board Risk Committee.

Risk mitigants

Rothesay manages our investments in-house which allows us to proactively manage the composition of our investment portfolio. We are able to diversify exposures across and within sectors, controlling position sizes through limits, and regular monitoring and oversight of investments. For more liquid investments, we are able to actively reduce exposure where we have credit or other concerns.

When making new investments, Rothesay considers the potential exposure to climate change risk and other ESG factors. Where such risks are likely to be material over the life of the transaction then this will be considered during the internal credit rating assessment. Such considerations can also lead to investment in shorter duration assets and avoidance of risk exposure, for example when Rothesay funds the origination of residential mortgages, our lending criteria includes a specification of the type of properties that are acceptable including factors such as construction, location and environmental perils such as flood risk.

To mitigate the credit exposures on derivatives and collateralised agreement transactions, Rothesay obtains collateral from counterparties on an upfront or contingent basis. Rothesay also enters into netting agreements with counterparties that permit it to offset receivables and payables with such counterparties for transaction settlements and upon a counterparty default.

When Rothesay does not have sufficient visibility into a counterparty's financial strength, or when it believes a counterparty requires support from its parent company, Rothesay may obtain third party guarantees of the counterparty's obligations. Rothesay also mitigates its investment and counterparty credit risk using credit derivatives.

Notes to the financial statements continued

Note F – Risk and capital management (continued)
F.2 Risk management and analysis (continued)
F.2.1 Credit risk (continued)
Credit exposures
Rothesay is exposed to credit risk from its receivables from third parties. Receivables from counterparties are generally comprised of collateralised receivables related to derivatives or collateralised agreements transactions and have minimal credit risk due to the value of the collateral received. In addition, Rothesay invests in assets that are typically highly rated, or assets where there is underlying structural security in the event of a default. These assets include supranationals, sovereign bonds, sub-sovereign bonds, covered bonds, higher education bonds, infrastructure assets, unsecured corporate bonds and secured residential lending.

Further information is provided below:

Cash and cash equivalents
Cash and cash equivalents include both interest bearing and non-interest bearing deposits and investment in money market funds. To mitigate the risk of credit loss, Rothesay diversifies its exposure and places its deposits with multiple banks.

Collateralised agreements
Collateralised agreements are reported at fair value or contractual value before consideration of collateral received on the balance sheet. Rothesay bears credit risk related to sale and repurchase agreements and securities borrowing only to the extent that cash advanced to the counterparty exceeds the value of the collateral received or charges over assets. Therefore, Rothesay's credit exposure on the transactions is significantly lower than the amounts recorded on the balance sheet. Rothesay also has credit exposure on repurchase agreements and securities loaned, which are liabilities on its consolidated statement of financial position, to the extent that the collateral pledged for these transactions exceeds the amount of cash received.

Offsetting of financial assets and financial liabilities
The following table shows the impact of the netting arrangements result in the derivative assets and liabilities presented net in the balance sheet, including balances which do not qualify for netting under IAS 32:

Note F – Risk and capital management (continued)
F.2 Risk management and analysis (continued)
F.2.1 Credit risk (continued)

	2023						
	Effects of offsetting			Related amounts not offset			
	Gross amounts £m	Amounts offset £m	Net amounts presented in the statement of financial position £m	Netting under master netting agreements £m	Cash collateral £m	Security collateral and charges £m	Net credit exposures £m
Derivative assets	**33,781**	**(164)**	**33,617**	**(29,340)**	**(2,436)**	**(1,823)**	**18**
Collateralised agreements and financing	**63**	**—**	**63**	**—**	**—**	**(63)**	**—**
Total	**33,844**	**(164)**	**33,680**	**(29,340)**	**(2,436)**	**(1,886)**	**18**
Derivative liabilities	**(33,157)**	**164**	**(32,993)**	**29,340**	**761**	**2,892**	**—**
Collateralised financing agreements	**(2,969)**	**—**	**(2,969)**	**—**	**—**	**2,953**	**(16)**
Total	**(36,126)**	**164**	**(35,962)**	**29,340**	**761**	**5,845**	**(16)**

	2022						
	Effects of offsetting			Related amounts not offset			
	Gross amounts £m	Amounts offset £m	Net amounts presented in the statement of financial position £m	Netting under master netting agreements £m	Cash collateral £m	Security collateral and charges £m	Net credit exposures £m
Derivative assets	37,810	—	37,810	(33,633)	(2,399)	(1,738)	40
Collateralised agreements and financing	430	—	430	—	—	(430)	—
Total	38,240	—	38,240	(33,633)	(2,399)	(2,168)	40
Derivative liabilities	(37,799)	—	(37,799)	33,633	1,346	2,793	(27)
Collateralised financing agreements	(3,628)	—	(3,628)	—	—	3,628	—
Total	(41,427)	—	(41,427)	33,633	1,346	6,421	(27)

Credit default swaps have been purchased to protect Rothesay from the default of some of its counterparties. The table above does not reflect the protection provided. Rothesay calls margins, receivable in cash and gilt instruments, against this exposure and other derivative positions. Bilateral derivative transactions have benefited from additional collateral security in the form of Initial Margin since 1 September 2021.

In a distressed situation the value of collateral may vary depending on credit quality and interest rates. The effectiveness of collateral as a credit risk mitigant will depend on the operational expertise of the collateral manager and the ability to seize, value and sell the collateral in a distressed scenario.

Rothesay has the right of offset for certain financial assets and liabilities. Netting under master netting agreements of £29,340m (2022: £33,633m) reflects the offsetting of derivative assets with liabilities for which Rothesay has a right to set off in the event of default. Cash and security collateral have been offset to the extent there are credit exposures on the balance sheet.

Notes to the financial statements continued

Note F – Risk and capital management (continued)
F.2 Risk management and analysis (continued)
F.2.1 Credit risk (continued)
Credit ratings
The table below shows Rothesay's credit exposure from financial investments (excluding derivatives), receivables and cash based on external and internal ratings, consistent with management's view of credit risk. The external rating is generally based on the median of the ratings assigned by Standard & Poor's, Moody's and Fitch. For the purpose of Solvency II, unrated assets are internally rated by Rothesay's independent Credit Risk function under a framework which has been externally validated.

	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	C £m	Unrated £m	Total £m
2023	**8,829**	**22,499**	**18,182**	**9,397**	**175**	**1**	**3**	**8,625**	**67,711**
2022	12,582	12,369	16,803	7,404	148	1	—	6,231	55,538

We have excluded derivatives and other assets in the table as the derivatives are collateralised and we feel the presentation above increases clarity of the disclosure and corresponds more closely to the way in which we measure the credit risk. The difference between the total assets shown in the table above and the assets under management **(APM)** is:

- Derivative assets of £33,617m (2022: £37,810m); and
- Other assets of £1,660m (2022: £1,568m); less
- Payables and financial liabilities of £41,281m (2022: £47,188m).

AAA rated assets include Government bonds, supranational bonds, sub-sovereigns, covered bonds, US not-for-profit private universities, rate reduction bonds and certificates of deposit. AA rated assets include gilts and corporate bonds. Other net credit exposures rated A and BBB include investments in regulated infrastructure assets and commercial real estate loans, as well as unsecured corporate bonds.

Unrated assets are UK and Dutch residential mortgages that are not individually rated.

Other than a small number of residential mortgages, as of the current and prior year end there were no financial assets past due.

Note F – Risk and capital management (continued)

F.2 Risk management and analysis (continued)

F.2.2 Market risk

Market risk is the risk of changes in the value of Rothesay’s net financial position due to changes in market prices. Financial investments are accounted for at fair value and, therefore, fluctuate on a daily basis. Certain liabilities are also exposed to market risk. Categories of market risk include the following:

- Interest rate risk arises from discounting cash flow mismatches across all future dates. Profits and losses are generated through changes in the level, slope and curvature of interest rate curves. The risk is hedged closely by matching assets and liabilities and by using interest rate swaps. Consideration is given to Rothesay’s IFRS, MCEV and solvency risk positions when determining the appropriate hedging strategy.
- Inflation rate risk results from mismatches in the index linkage of liabilities and assets. Profits and losses are generated through changes to the level, slope and curvature of inflation curves. The risk is hedged by closely matching assets and liabilities and by using inflation swaps.
- Currency rate risk results from mismatches in the denomination of liabilities and assets. Profits and losses are generated due to changes in the level of foreign exchange rates. The risk is hedged using spot foreign exchange and cross-currency swaps.
- Property risk results from investments that are secured on commercial or residential properties. In some instances, this risk may arise from the potential impact of climate change on properties (including the need to improve the carbon efficiency of buildings). Profits and losses may be generated by material movements in spot or forward property prices. This risk is mitigated through strict underwriting criteria, aggregate risk monitoring, consideration of ESG risks and low loan-to-value limits. Where the property risk becomes more material then prudent allowance is made for this within the credit risk adjustment.

Rothesay manages market risk by diversifying exposures, controlling position sizes through limits and regular stress and scenario testing and establishing economic hedges in related securities, derivatives and insurance liabilities.

Sensitivities to market risk are shown in note E.8.

F.2.3 Liquidity risk

Liquidity risk arises where timing differences and/or uncertainties occur between cash inflows and cash outflows. The objective of liquidity management is to ensure that Rothesay is capable of honouring all cash flow commitments on both an ongoing basis and in highly stressed scenarios, without incurring significant cost or business disruption.

Rothesay's liquidity policy is designed to ensure the availability of sufficient funds to meet cash flow requirements on a timely basis via:

- Maintenance of substantial excess liquidity. Rothesay seeks to enter into long-term, illiquid investments that match its liabilities in order to maximise the value of the illiquidity premium. To mitigate residual liquidity risk, Rothesay maintains substantial excess liquidity to meet a broad range of potential cash outflows in a stressed environment including collateral outflows and financing obligations.
- Entering into repurchase agreements and derivative and reinsurance agreements that allow Rothesay to post corporate bonds as collateral rather than just cash and gilts.
- Conservative asset/liability management. Rothesay seeks to maintain funding sources that are sufficiently long-term in order to withstand a prolonged or severe liquidity-stressed environment. Only the most liquid assets held on Rothesay’s balance sheet are assumed to be available to meet potential stressed liquidity requirements.
- Maintenance of a comprehensive liquidity contingency plan including having contingent liquidity facilities executed which can be drawn if required to raise cash.

Notes to the financial statements continued

Note F – Risk and capital management (continued)
F.2 Risk management and analysis (continued)
F.2.3 Liquidity risk (continued)

The liquidity management framework is designed to ensure that a prudent level of liquidity is maintained on a spot basis, but also under stressed market conditions, at which time liquidity may leave Rothesay through collateral outflows and ongoing business obligations such as expenses and undrawn investments. A comprehensive analysis of all sources of liquidity risk to which the Group is exposed is maintained. Based upon this analysis, an extensive suite of stresses is considered as part of the liquidity management framework, including onerous market shocks, against which limits are applied by the Board.

Management is responsible and accountable for managing liquidity risks within prescribed limits that are set by the Board and are overseen by the Board Risk Committee. The second line Risk function ensures that an appropriate framework is in place for assessing, monitoring and managing liquidity risk. Liquidity is managed for Rothesay as a whole, in addition to at a Solvency II fund level. Risks are monitored and controlled through strong oversight, and independent control and support functions across the business.

The following table details Rothesay's financial liabilities and assets by maturity. Cash flows arising from financial investments and liabilities have been disclosed using undiscounted expected contractual cash flows. The cash flows have been adjusted for credit risk as this is the best estimation of the flows used to back the liabilities. Further details of the probability of default are included in note E. The table excludes insurance liabilities which are included in note E.7. The table also excludes lifetime mortgage cash flows which are included in note D.1 and leasehold cash flows which are included in note I.6.

	2023			
	Less than 1 year £m	1 to 5 years £m	Over 5 years £m	Total £m
Financial assets				
Financial investments	**14,581**	**25,318**	**108,578**	**148,477**
Accrued interest	**677**	**—**	**—**	**677**
Receivables	**2,013**	**—**	**—**	**2,013**
Cash and cash equivalents	**267**	**—**	**—**	**267**
	17,538	**25,318**	**108,578**	**151,434**
Financial liabilities				
Financial liabilities	**(5,737)**	**(11,830)**	**(33,161)**	**(50,728)**
Payables	**(5,318)**	**(1)**	**—**	**(5,319)**
Borrowings	**—**	**(1,357)**	**(891)**	**(2,248)**
Accruals	**(160)**	**—**	**—**	**(160)**
	(11,215)	**(13,188)**	**(34,052)**	**(58,455)**
Net	**6,323**	**12,130**	**74,526**	**92,979**

Note F – Risk and capital management (continued)
F.2 Risk management and analysis (continued)
F.2.3 Liquidity risk (continued)

	2022 restated			
	Less than 1 year £m	1 to 5 years £m	Over 5 years £m	Total £m
Financial assets				
Financial investments	18,775	26,704	88,574	134,053
Accrued interest	558	—	—	558
Receivables	2,149	—	—	2,149
Cash and cash equivalents	270	—	—	270
	21,752	26,704	88,574	137,030
Financial liabilities				
Financial liabilities	(11,259)	(15,305)	(30,146)	(56,710)
Payables	(5,451)	—	—	(5,451)
Borrowings	—	(743)	(1,021)	(1,764)
Accruals	(89)	(9)	—	(98)
	(16,799)	(16,057)	(31,167)	(64,023)
Net	4,953	10,647	57,407	73,007

F.2.4 Operational risk
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes project risk and cyber risk. Rothesay manages operational risk through the development and maintenance of an effective risk management framework which ensures that a comprehensive internal control environment is in place. This is supported by regular risk and control self-assessments coordinated, challenged and reported by the second line, which allow risk levels to be measured and control enhancements to be developed in line with Rothesay's risk appetite.

Rothesay also uses scenario analysis to explore key areas of operational risk, ensuring that the implications of adverse operational risk events crystallising are well understood and that, where appropriate, additional controls or contingency plans are introduced to improve operational resilience.

Rothesay has important outsourcing arrangements in place, which are subject to extensive due diligence at the point of entering into them, but also to ongoing review, with oversight provided by the Business Controls Committee. Oversight of these arrangements considers the information security risk that Rothesay is exposed to, the performance of the third party with respect to service level agreements, and other relevant information (e.g. their ongoing creditworthiness, and where relevant, their readiness to accommodate Rothesay's growth). Strategic projects are monitored by Rothesay's Change Management function and relevant committees and are required to operate according to our project management framework.

Rothesay seeks to mitigate cyber risk through robust processes and controls including data protection, penetration testing and staff training, and maintains ISO 27001 and ISO 22301 accreditation. Operational risk also includes the risk of conduct failure; a risk that is managed by the business and overseen by the Compliance function and the Customer Conduct Committee.

Notes to the financial statements continued

Note F – Risk and capital management (continued)

F.2 Risk management and analysis (continued)

F.2.5 Insurance risk

Insurance risk is the risk of changes in the value of Rothesay's net position due to changes in the insurance contract liabilities. Insurance risk may occur either through changes in actual demographic experience or revised expectations of future experience. The main categories of insurance risk include the following:

- Demographic risk arises from current mortality or spouse/dependant experience being lighter than that assumed. The risk is hedged by external reinsurance.
- Longevity improvement risk represents the risk of future mortality rates improving at a faster rate than assumed. The risk is hedged by external reinsurance.
- Expense risk results from future expenses required to maintain the business being higher than expected. This risk is managed through budgeting and robust expense management.
- Data risk arises from the risk that the cost of correcting residual data errors exceeds the provisions held against this risk. This risk is managed through detailed due diligence, exclusion of known data issues and prudence in quantifying appropriate provisions.

As at 31 December 2023, 87% of longevity risk was reinsured (2022: 89%). Risks are monitored and controlled by the Actuarial function and overseen by the Chief Actuary and the Risk function.

Note G – Other statement of consolidated financial position notes

G.1 Deferred tax assets

Deferred income tax is provided using the liability method on temporary differences at the financial statement date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets/liabilities is reviewed at each financial reporting 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 financial reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the financial reporting date.

Deferred income tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income tax relates to the same taxable entity and the same taxation authority.

Deferred tax balances comprise:

	2023 £m	2022 restated £m
Deferred tax arising from the impact of IFRS 17 initial application	**396**	396
Deferred tax on 2022 losses carried forward arising from IFRS 17 Profit & Loss restatement	**304**	304
Total deferred tax arising from IFRS 17 application	**700**	700
Reversal of IFRS 17 transitional losses	**(66)**	—
Other temporary differences	**24**	13
Total temporary differences	**658**	713

The movements in the deferred tax balances were as follows:

	2023 £m	2022 restated £m
At 1 January as previously reported	**713**	3
Deferred tax arising from the impact of IFRS 17 initial application	**n/a**	396
Restated opening balance as at 1 January	**713**	399
Deferred tax on 2022 losses carried forward arising from IFRS 17 Profit & Loss restatement	**—**	304
Reversal of IFRS 17 transitional losses	**(66)**	—
Deferred tax credited/(charged) to equity	**1**	(1)
Current year income statement credit	**10**	11
At 31 December	**658**	713

Notes to the financial statements continued

Note G – Other statement of consolidated financial position notes (continued)
G.1 Deferred tax assets (continued)
Deferred tax assets are only recognised to the extent that, based on management's assessment, they are regarded as recoverable. Management considers it appropriate to recognise a deferred tax asset in light of forecast future profits and the history of profits within the Group. The recoverability of the deferred tax asset has been assessed at each reporting period based on projected future taxable profits arising from the release of CSM and RA as insurance services are provided. We also expect to write business in the future which is expected to increase the future taxable profit against which the unused tax losses can be utilised.

Other temporary differences are the result of differences between the accounting and tax basis which will reverse over time.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase from 19% to 25%. This was enacted into law on 10 June 2021. On 23 September 2022, the UK Chancellor of the Exchequer announced that the intended increase in the UK corporation tax rate referred to above would be cancelled. On 14 October Liz Truss, the then Prime Minister, reversed that decision made as part of the 'Mini Budget' and confirmed that the corporation tax rate would increase to 25% from the historic 19% rate as of 1 April 2023. Therefore, we calculated the blended current tax rate for 2023 as 23.52% (2022: 19%), based on three months at 19% and nine months at 25%.

In response to the adoption of IFRS 17, the UK Government has implemented "The Insurance Contracts (Tax) (Change in Accounting Standards) Regulations 2022 (SI2022/1165)" (the "Regulations"). This requires a life insurance company to calculate the impact of adoption of IFRS 17 on opening retained earnings (excluding the impact of movements in deferred tax and movements in any non-taxable amounts) and to spread this amount over a period of ten years for tax purposes (i.e. one tenth of the spread amount becomes taxable/deductible in each of the first ten years). The Regulations were enacted as of November 2022.

The adoption of IFRS 17 caused Rothesay to reduce the opening retained earnings (pre-tax) by £1,595m as at 1 January 2022. There was a further decrease in retained earnings during 2022 of £1,224m, due to the restatement in the Profit & Loss from IFRS 4 to IFRS 17. This resulted in a total reduction in retained earnings (pre-tax) of £2,819m as at 2022. Under the Regulations discussed above, this reduction in the retained earnings is treated as a tax deductible expense of the business (subject to the ten-year spreading). Under the transitional arrangements, this expense will be spread over a ten-year period resulting in an annual tax deduction of £282m over the ten year period. The full amount of the transitional adjustment relates to activities in the United Kingdom.

The value of the deferred tax asset has been calculated based on the blended tax rate of 24.85% across the period over which the deferred tax asset is expected to be utilised. Prior to the enactment of the new regulations, the transitional losses are projected to be utilised over a longer period and hence a marginally different blended rate would have applied. For the purposes of restating comparatives, due to immateriality, we have not allowed for this impact, i.e. the value of the deferred tax asset at 2022 has been calculated assuming that the new regulations applied.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a qualifying domestic minimum effective tax rate of 15%. The legislation implements a domestic top up tax and a multinational top up tax, effective for accounting periods starting on or after 31 December 2023. The Group has applied the exception under the proposed IAS 12 amendment to recognising and disclosing information about deferred tax assets and liabilities related to top up income taxes. Rothesay does not currently expect the effect of the Pillar Two legislation to have an impact on the tax position in future periods.

Note H – Interests in subsidiaries

H.1 Investment in unconsolidated structured entities

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

Rothesay has interests in unconsolidated structured entities as described below:

- investment in collective investment schemes which allows Rothesay to receive profit or income from the underlying assets held in the schemes. These are predominately large established money market funds of which the total asset value of the funds was £348bn (2022: £353bn);
- loans granted to and notes issued by special purpose vehicles (SPVs) secured by the assets held by the SPV such as commercial or residential real estate;
- debt securities issued by SPVs secured by financial receivables; and
- loans granted to SPVs secured by financial receivables.

The value of Rothesay's interests is included within financial investments (see note D.1).

As at 31 December 2023, our total interest in such entities, reflected on Rothesay's statement of financial position and classified as financial investments held at fair value through profit or loss, was £11,575m (2022: £11,472m). The recorded fair value represents Rothesay's maximum loss exposure to these unconsolidated structured entities. The £0.1bn increase in the balance was predominantly driven by new investments largely offset by the mark-to-market decrease in the value of loans secured on property.

The interest income recognised in relation to these investments was £519m (2022: £281m).

A summary of Rothesay's interest in unconsolidated structured entities is provided below and has been recognised on the balance sheet (see note D.1):

	2023 £m	2022 £m
Collective investment schemes	**4,395**	4,586
Government sub-sovereign and agency obligations	**23**	40
Corporate bonds and other corporate debt	**2,490**	2,057
Loans secured on property	**4,667**	4,789
Total	**11,575**	11,472

Notes to the financial statements continued

Note H – Interests in subsidiaries (continued)

H.2 Investments in subsidiaries

The financial statements include the financial statements of Rothesay Limited and the subsidiaries listed in the following table:

Group undertakings	Country of incorporation	Primary business operation	2023 £m	2022 £m	2023 % equity interest	2022 % equity interest
Rothesay Pensions Management Limited	UK	Service company	**2**	1	**100%**	100%
Rothesay Life Plc	UK	Life insurance	**2,464**	2,464	**100%**	100%
LT Mortgage Financing Limited	UK	Service company	**6**	6	**100%**	100%
Rothesay Property Partnership 1 LLP	UK	Service company	**—**	—	**100%**	100%
Rothesay MA No.1 Limited	UK	Service company	**5**	5	**100%**	100%
Rothesay Mortgages Limited (formerly known as Rothesay MA No.2 Limited)	UK	Service company	**—**	—	**100%**	100%
Rothesay MA No.3 Limited	UK	Service company	**2**	2	**100%**	100%
Rothesay MA No.4 Limited	UK	Service company	**—**	—	**100%**	100%
Rothesay Asset Management UK Limited	UK	Service company	**10**	10	**100%**	100%
Rothesay Asset Management Australia Pty Ltd	Aus	Service company	**5**	5	**100%**	100%
Rothesay Asset Management North America LLC (formerly known as Rothesay Asset Management US LLC).	US	Service company	**5**	5	**100%**	100%

Subsidiaries are held at cost less impairment.

The above subsidiary undertakings, with the exception of Rothesay Asset Management North America LLC and Rothesay Asset Management Australia Pty Ltd, are registered in the United Kingdom. The registered office and principal place of business for all UK subsidiary undertakings is The Post Building, 100 Museum Street, London WC1A 1PB.

Rothesay Asset Management North America LLC (formerly known as Rothesay Asset Management US LLC) is registered in Delaware, United States of America. The registered office is Corporate Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, New Castle County, USA.

Rothesay Asset Management Australia Pty Ltd was incorporated during July 2021 and is registered in New South Wales, Australia. The registered office is Level 12, 680 George Street, Sydney, NSW 2000, Australia.

Rothesay Property Partnership 1 LLP was incorporated during March 2021 and has not commenced trading.

Rothesay Mortgages Limited (formerly known as Rothesay MA No.2 Limited) was incorporated during March 2019 and underwent a name change in September 2022.

Rothesay MA No.4 Limited (RMA4) was incorporated during November 2019. RMA4 remains dormant.

During October 2019, Rothesay established a charitable foundation, Rothesay Foundation; this entity is not incorporated into the consolidated financial statements as the charity is controlled by its trustees rather than Rothesay Limited or the Group.

Note I – Other notes

I.1 Property, plant and equipment

Equipment is stated at cost less accumulated depreciation/amortisation and accumulated impairment losses. Depreciation is calculated on a straight-line basis over the useful life of the following classes of assets:

- *Computer equipment: 3 years*
- *Furniture and fittings: 5 years*
- *Software: 10 years*

Development expenditure on internally developed software is recognised as an asset only if Rothesay can demonstrate the technical feasibility to complete the development of the software, its intention and the availability of resources to complete the development and to use the software, and its ability to use the software to generate probable future economic benefits and to measure the expenditure reliably. Subsequent expenditure on internally developed software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as it is incurred. Amortisation of the intangible asset begins when development is complete, and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the intangible asset is tested for impairment annually.

Group	Software £m	Computer equipment £m	Furniture and fittings £m	Total £m
Cost				
As at 1 January 2023	**13**	**—**	**10**	**23**
Additions	**11**	**1**	**—**	**12**
As at 31 December 2023	**24**	**1**	**10**	**35**
Accumulated depreciation				
As at 1 January 2023	**—**	**—**	**(5)**	**(5)**
Charge for the year	**—**	**(1)**	**(2)**	**(3)**
As at 31 December 2023	**—**	**(1)**	**(7)**	**(8)**
Net book value as at 31 December 2023	**24**	**—**	**3**	**27**
Cost				
As at 1 January 2022	4	—	10	14
Additions	9	—	—	9
As at 31 December 2022	13	—	10	23
Accumulated depreciation				
As at 1 January 2022	—	—	(3)	(3)
Charge for the year	—	—	(2)	(2)
As at 31 December 2022	—	—	(5)	(5)
Net book value as at 31 December 2022	13	—	5	18

At 31 December 2023 and 31 December 2022, Rothesay conducted an impairment review of the software asset not yet available for use and found no impairment necessary. The software asset capitalised relates to assets which remain under development.

Notes to the financial statements continued

Note I – Other notes (continued)

I.2 Company profit and loss

The loss for the financial year of the Company was £9m (2022: net loss of £7m). On 2 October 2023, the Company received £351m dividends from RLP, which was recognised as income in the profit or loss in the year. As permitted by Section 408 of the Companies Act 2006, the Company's statement of comprehensive income has not been included in these financial statements.

I.3 Share-based payments

Historically, the cost of equity-based transactions with employees has been measured based on grant-date sale value.

The fair value was determined at grant date and expensed on a straight-line basis over the vesting period in profit and loss. At each reporting date Rothesay revised its estimate of the number of shares that were expected to be issued and recognised the impact of the revision of original estimates.

During December 2020, Rothesay amended its remuneration policy in relation to the deferred equity award plan (previously known as the Long Term Stock Incentive Plan) to give employees the choice of receiving cash or equity for vestings from December 2021 onwards. For these awards, the fair value of the grant will now be reassessed at each reporting period and any change charged to profit and loss.

Share-based employee awards that require future services are amortised over the relevant service period. Expected forfeitures are included in determining share-based employee compensation expenses.

During the year ended 31 December 2015, Rothesay created a stock incentive plan, now known as the deferred equity award plan which provided for grants of restricted stock units (RSUs).

Rothesay issues RSUs to the employees under the deferred equity award plan, primarily in connection with year-end compensation. These RSUs vest and deliver as outlined in the applicable RSU agreements. Vesting is subject to the recipient not having left employment or having left employment as a result of death, permanent illness, redundancy or retirement (subject to Remuneration Committee approval). Delivery of the RSUs is in the form of shares or an equivalent amount of cash (subject to the approval of the Remuneration Committee). All RSUs have a future service requirement. Note that we have provided an estimate for the number of RSUs granted during the year because, although the awards have been approved in principle by the Remuneration Committee, the actual number will not be finalised until after the financial statements have been approved.

The activity related to the deferred equity award plan RSUs is set out below:

	2023 No. of RSUs	2022 No. of RSUs
Outstanding at the beginning of the year	**10,815,101**	11,503,926
Forfeited during the year	**(10,659)**	(102,461)
Vested during the year	**(6,348,574)**	(5,813,603)
Granted during the year	**5,333,299**	5,227,239
Outstanding at the end of the year	**9,789,167**	10,815,101

On 3 March 2020, the Company established a new HMRC-approved employee share plan known as the Employee Share Incentive Plan (ESIP). Under the ESIP, Rothesay offered shares to all eligible UK employees as part of year-end compensation. The rules governing withdrawal of the shares from the ESIP Trust and subsequent tax treatment are set by HMRC. They are disclosed as employee scheme shares until they are withdrawn. The ability to withdraw shares is generally subject to the recipient not having left employment before three years from grant date.

Note I – Other notes (continued)

I.3 Share-based payments (continued)

The activity related to the ESIP RSUs is set out below:

	2023 No. of RSUs	2022 No. of RSUs
Outstanding at the beginning of the year	**704,709**	492,300
Forfeited during the year	**(53,916)**	(56,973)
Granted during the year	**371,066**	269,382
Outstanding at the end of the year	**1,021,859**	704,709

The methodology for calculating the fair value of the RSUs is intended to use a valuation basis consistent with the price paid by MassMutual and GIC for Blackstone's shareholding at the end of 2020. The weighted average fair value of the RSUs at 31 December 2023 was £4.50 (31 December 2022: £3.86).

Share appreciation plan

During December 2020, a new long-term share appreciation plan (the SARs plan) was created which provides for grants of cash-settled share appreciation rights (SARs). The SARs provide the right to receive the upside on a fixed proportion of an agreed value of Rothesay shares over a defined time horizon, paid out in cash, subject to achievement of returns above an agreed hurdle. The SARs were awarded for the first time in 2021 and vest and deliver as outlined in the applicable agreement. Vesting is subject to the recipient not having left employment or having left employment as a result of death, permanent illness, redundancy or retirement (subject to Remuneration Committee approval). All SARs have a future service requirement. Share appreciation rights were granted in January 2021, December 2021, December 2022 and December 2023.

The valuation of the SARs is based on a Black-Scholes option pricing model and uses the same methodology for valuing shares as is used for share-based payments but with adjustments for payment of dividends in the vesting period. The weighted average fair value and assumptions used to determine the fair value of the SARs issued in 2021 and 2022 are as follows:

- Weighted average fair value at grant date: £0.69
- Expected volatility: 30%
- Outstanding vesting period: three years from issue
- Risk-free interest rate: nil

The weighted average fair value and assumptions used to determine the fair value of the SARs issued in 2023 is as follows:

- Weighted average fair value at grant date: £0.88
- Expected volatility: 30%
- Outstanding vesting period: three years from issue
- Risk-free interest rate: 3.62%

The number of SARs awarded is as follows:

	2023 No. of SARs	2022 No. of SARs
Outstanding at the beginning of the year	**76,693,043**	50,726,066
Forfeited during the year	**—**	—
Vested during the year	**—**	—
Granted during the year	**27,777,778**	25,966,977
Outstanding at the end of the year	**104,470,821**	76,693,043

Notes to the financial statements continued

Note I – Other notes (continued)

I.3 Share-based payments (continued)

Expenses in relation to share-based payment schemes

Expenses of £61m (2022: £20m) have been charged to the profit and loss of Rothesay during the year in relation to the various share-based payment schemes. The year-on-year increase has been driven by the increase in share price.

I.4 Related parties disclosures

Ultimate holding companies

Based on the percentage of nominal share capital owned, the shareholdings of Rothesay's institutional investors are as follows:

- GIC Private Limited: 49%
- MassMutual Financial Group: 49%

The remaining percentage is owned by the Directors, management, employees, the Trust and the ESIP Trust (see note C.2).

Related party transactions

Rothesay entered into various transactions with fellow participating interests which are subject to common control from the same source.

	2023 £m	2022 restated £m
Statement of comprehensive income		
Net recovery from reinsurance contracts held	**(1)**	—
Finance expense for reinsurance contracts held	**83**	(93)
Investment return	**36**	(9)
Finance costs	**(18)**	(18)
Operating expenses	**(1)**	(5)
Statement of financial position		
Financial investments	**583**	187
Receivables	**43**	—
Reinsurance contract liabilities	**(10)**	(82)
Reinsurance contract assets	**20**	—
Borrowings	**299**	299
Capital	**1,548**	1,548

Financial investments represent a loan secured on property and an investment in a Real Estate Investment Trust (REIT) both of which are subject to common control from one of our shareholders. We have written a number of reinsurance contracts with our shareholder MassMutual, the values of which have been restated based on IFRS 17. All related party transactions were discussed and approved by the Board.

On 6 July 2023, the Board approved an interim dividend of £351m which was paid to shareholders on 4 October 2023.

Note I – Other notes (continued)

I.4 Related parties disclosures (continued)

Transactions with key management personnel

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

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

	2023 £m	2022 £m
Salaries, bonus and other employee benefits	**30**	24
Equity-based compensation payments	**35**	14
Pension costs	**1**	1
Total transactions	**66**	39

On 3 April 2023, members of key management personnel and their families sold 112,560 B ordinary shares to the employment benefit trust for consideration of £0.4m.

On 29 March 2022, members of key management personnel and their families sold 1,683,216 B ordinary shares to the employment benefit trust for consideration of £7m. On 31 March 2022, members of key management personnel and their families bought 4,819,277 B ordinary shares from the employment benefit trust for consideration of £20m.

The tables below represent transactions between Rothesay Limited and its subsidiaries RPML, RLP and Rothesay Asset Management UK (RAM UK).

Transactions with RPML	2023 £m	2022 £m
Statement of financial position		
Other payables	**8**	22
Capital	**2**	2

Transactions with RLP	2023 £m	2022 £m
Statement of comprehensive income		
Finance costs	**(3)**	(1)
Cost transfer	**(5)**	(5)
Statement of financial position		
Other payables	**91**	80
Capital	**2,464**	2,464

Transactions with RAM UK	2023 £m	2022 £m
Capital	**10**	10

Notes to the financial statements continued

Note I – Other notes (continued)

I.4 Related parties disclosures (continued)

Transactions with LT Mortgage Financing Limited

Between 2018 and 2022, £4.9bn of lifetime mortgages were transferred from RLP to its subsidiary LT Mortgage Financing Limited (LTMF). During 2023 a further £0.6bn were transferred. Whenever lifetime mortgages were transferred, LTMF became the beneficial owner of the lifetime mortgages in exchange for the issue of loan notes. These transactions took place on an arm's length basis using the fair value of the lifetime mortgages. Under IFRS 9, the loans cannot be derecognised from RLP as RLP effectively maintains all the risk and rewards and control of the mortgages after the securitisations through the loan notes. For the purposes of determining the valuation rate of interest, these securitisations are ignored.

Transactions with Rothesay MA No.1 Limited

During December 2018, £0.8bn of ground rent loans were transferred from RLP to its subsidiary Rothesay MA No.1 Limited (RMA1). RMA1 became the beneficial owner in the ground rent loans in exchange for the issue of loan notes. These transactions took place on an arm's length basis using the fair value of the ground rent loans. Under IFRS 9, the loans cannot be derecognised from RLP as RLP effectively maintains all the risk and rewards and control of the loans after the securitisations through the loan notes. For the purposes of determining the valuation rate of interest, this securitisation is ignored.

Transactions with Rothesay MA No.3 Limited

During 2020 and 2021, €1.0bn of Dutch mortgage loans were transferred from RLP to its subsidiary Rothesay MA No.3 Limited (RMA3). During 2023 a further €1.0bn were transferred. In each case, RMA3 became the beneficial owner in the Dutch mortgage loans in exchange for the issue of loan notes. This transaction took place on an arm's length basis using the fair value of the Dutch mortgages. Under IFRS 9, the loans cannot be derecognised from RLP as RLP effectively maintains all the risk and rewards and control of the mortgages after the securitisations through the loan notes. For the purposes of determining the valuation rate of interest, this securitisation is ignored.

I.5 Financial commitments and contingencies

During previous years, Rothesay executed transactions to purchase partly funded bonds and forward settling bonds. During 2023, Rothesay purchased additional partly funded bonds, forward settling bonds and fund units with a commitment for future funding. Rothesay also signed up to a number of multi-year contracts, in relation to the provision of market data. Rothesay expects to pay a further £149m within the next five years (2022: £667m), £122m of this being due within 12 months of the financial reporting date (2022: £631m).

	2023 £m	2022 £m
Not later than one year	**122**	631
Later than one year and no later than five years	**27**	36
Later than five years	**—**	—
Total other commitments	**149**	667

Note I – Other notes (continued)

I.6 Leases

(a) Amounts included in the statement of financial position

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- *fixed payments, less any lease incentives receivable;*
- *amounts expected to be payable by Rothesay under residual value guarantees;*
- *payments of penalties for terminating the lease; and*
- *lease payments to be made under reasonably certain extension options.*

Lease payments are discounted using Rothesay's incremental borrowing rate. The incremental borrowing rate represents the cost of funding to Rothesay at the date that the lease was entered into.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the statement of income over the lease period so as to produce a constant rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- *amount of any initial measurement of lease liability;*
- *leased payments made before the commencement date less any lease incentives received;*
- *initial direct costs; and*
- *restoration costs.*

Right-of-use assets are depreciated over the lease term on a straight-line basis.

Rothesay's right-of-use assets include the lease on the UK office executed in May 2019. The lease for the UK office, The Post Building, has a duration of 17 years with a break clause at 12 years which we have assumed is exercised. The incremental borrowing rate for the Group was 3.37%. During November 2023 Rothesay took over the lease of levels 3 and 4 of The Post Building, the lease has a duration of 12 years and we have used an incremental borrowing rate of 7.58%. Rothesay's right-of-use assets also include the lease on the US office executed in 2022 and the Australian office executed in 2023.

Rothesay was not a lessor during the year.

Right-of-use assets

Right-of-use assets	2023 £m	2022 £m
Right-of-use assets	**57**	31
Right-of-use asset – properties		
Balance at 1 January	**31**	30
Depreciation charge for the year	**(4)**	(4)
Additions	**30**	5
Closing balance at 31 December	**57**	31

Notes to the financial statements continued

Note I – Other notes (continued)
I.6 Leases (continued)
(a) Amounts included in the statement of financial position (continued)
Lease liabilities

Lease liabilities	2023 £m	2022 £m
Lease liability	**72**	44
Maturity analysis based on undiscounted liabilities		
Current liabilities:		
Less than one year	**10**	5
Non-current liabilities:		
One to five years	**50**	28
More than five years	**31**	15
Total undiscounted lease liabilities	**91**	48

(b) Amounts recognised in the statement of comprehensive income

	2023 £m	2022 £m
Leasehold depreciation	**4**	4
Financing charge on lease liabilities (included in note B.4 Finance costs)	**2**	1

(c) Amounts recognised in the statement of cash flows

	2023 £m	2022 £m
Leasehold depreciation	**4**	4
Financing charge on lease liabilities	**2**	1
Total cash outflows for leases	**3**	4

Alternative Performance Measures

As noted on page 36, throughout the financial statements Rothesay has used a variety of measures to provide stakeholders with the necessary information on the performance and financial position of Rothesay. Where it is possible to reconcile to the financial statements this is referenced; however, some of these measures are not on a consistent basis with IFRS and therefore the methodology is explained below. Where relevant, we have used accounting policies and assumptions that are consistent with the IFRS financial statements.

These measures are included in the monthly management information circulated and discussed by the Board.

Adjusted equity

Adjusted equity provides a reflection of value which aligns with the long-term value of the Group. Adjusted equity equals total equity plus CSM net of tax less the value of sterling-denominated RT1 debt and gives a value of £7.5bn (2022: £6.6bn). This is a new APM following the transition to IFRS 17.

Assets under management

Assets under management can be derived by adjusting total assets for reinsurance, payables, derivatives, collateralised financing and deferred tax asset as shown in the table below. By netting down the derivative gross up, Rothesay provides a more meaningful value for the assets managed and a useful measure of the size of business. This APM has been impacted following the transition to IFRS 17 and the 2022 comparative has been restated to ensure a consistent basis; this has led to a restatement in assets under management of £239m.

Assets under management (APM)	2023 £m	2022 restated £m
Total assets	**103,203**	94,970
Less reinsurance assets	**(216)**	(54)
Less payables and financial liabilities	**(41,281)**	(47,188)
Less deferred tax asset	**(658)**	(713)
Assets under management	**61,048**	47,015

New business premium

New business premium is defined as the present value of premiums paid or due to be paid on new business transacted during the year. It corresponds to the present value of future cash inflows in note E.5(a).

Alternative Performance Measures continued

Alternative presentation of IFRS profits

The alternative presentation of IFRS profits seeks to provide an explanation of the way in which profits have been generated by considering the movement in assets alongside the movement in liabilities. When taken together with the other items in the alternative analysis of profit generation, the items can be reconciled to the IFRS financial statements (see page 35). The adjusted operating profit and the profit/(loss) before tax has been impacted following the transition to IFRS 17.

Measure	Reconciliation to IFRS
New business profit	New business premium less increase in best estimate liabilities and risk adjustment. After deduction of allocated acquisition expenses this is equal to the increase in CSM **(APM)** as a result of new business including new reinsurance (see note E.5).
New business acquisition expense	The new business acquisition expense are the expenses allocated to the execution of new business, equal to the amounts derecognised in 2023 and included in the measurement of insurance contracts (see note B.3).
Performance of in-force book	Insurance service result (adjusted for the impact of changes in assumptions and the impact of changes in the CSM) plus net investment income* (adjusted for the impact of changes in economic conditions) less operating expenses. This represents the profit that can be attributed to: • differences in actual investment returns compared to those assumed; • the release of the risk adjustment as the business runs off and members exercise their options; • the release of credit default allowances; • the impact of actual demographic experience versus assumptions; • the investment return on surplus assets; and • offset by non-attributable expenses from note B.3.
Non-economic assumption changes	Effect of non-economic assumption changes on BEL and RA net of reinsurance.
Adjusted operating profit before tax	Sum of the rows above.
Increase in CSM	Increase in CSM **(APM)** as a result of new business, experience and non-economic assumption changes less the release of CSM on in-force business net of accretion (see note E.3). This is a new APM following the transition to IFRS 17.
Borrowing costs	Interest payable on borrowings. This is a subset of the finance costs shown in note B.4.
Economic profits/(losses)	Change in asset valuation due to changes in economic conditions less the effect of economic assumption changes on net insurance liabilities. Changes in economic conditions include movements in interest rates, inflation, exchange rates, credit spreads, credit default allowances, actual defaults and property prices. The release of credit default allowances over time is included in the performance of the in-force book. This item also includes the reinsurance fees from note B.3.
Profit/(loss) before tax	Sum of the above and consistent with reported profit.

*Includes interest paid on collateral and collateralised agreements (note B.4).

Market consistent embedded value (MCEV)

Embedded value reporting provides investors with a useful measure of the future profit streams of Rothesay's long-term business. Rothesay therefore uses a number of APMs that are derived from MCEV measures in addition to those that are derived from IFRS-based measures. Note that in the table below, comparatives have not been restated, i.e. for 2022 the net worth and value of in-force business are based on IFRS 4 with 2022 restated based on IFRS 17.

Market consistent embedded value (APM)	2023 £m	2022 £m	2022 restated £m	
Net worth of Rothesay Limited	**6,599**	7,940	5,821	Total IFRS equity of £4,351m (2022: £6,176m; 2022 restated: £4,057m) and IFRS borrowings of £2,248m (2022: £1,764m; 2022 restated: £1,764m).
Value of in-force business	**3,752**	766	3,085	Value of emergence of IFRS margins and profit stored in the risk adjustment and CSM, allowing for the cost of capital.
Less: debt	**(2,842)**	(2,275)	(2,275)	Value of debt using a market value approach rather than the amortised cost valuation under IFRS. However, most of the difference between the value of debt on an MCEV basis and IFRS borrowings arises from the treatment of all the Restricted Tier 1 notes as debt under MCEV.
MCEV	**7,509**	6,431	6,631	

The movement analysis seeks to provide an explanation of the way in which MCEV has changed during the year. Acquisition expenses are allowed for in the MCEV value of new business and projects, and other one-off expenses are included in other non-operating variances. Administration expenses are allowed for in the management of in-force business.

The MCEV new business profit is the risk-adjusted value of the business written during the year, allowing for the unwind of margins and cost of capital. Note that unlike the IFRS 17 new business profit **(APM)**, it does not include the impact of new reinsurance contracts that relate to historic new business. It provides a measure of the profitability of new business once all margins have been released and cannot be reconciled to the IFRS financial statements.

The assumptions and methodology used in the calculation of the MCEV is subject to review and approval by the Board.

Alternative Performance Measures continued

Solvency measures

Rothesay is a regulated entity under the Solvency II regulatory framework and therefore uses a number of APMs that are derived from Solvency II measures in addition to those that are derived from IFRS-based measures. The assumptions and methodology used in the calculation of solvency is subject to review and approval by the Board.

Own Funds represent the capital in excess of technical provisions and provide a measure of regulatory capital. A reconciliation of Own Funds to IFRS equity is provided in note F.1.

Under Solvency II, the capital required to withstand a 1-in-200-year event is known as the solvency capital requirement (SCR). SCR coverage is then Own Funds (capital in excess of technical provisions) that are eligible to meet the SCR divided by the SCR and expressed as a percentage. SCR coverage provides a measure of the financial strength of Rothesay. It is not possible to reconcile the SCR or the SCR coverage to the IFRS financial statements.

Other APMs

The longevity reinsurance percentage provides an indication of the extent to which Rothesay is protected from fluctuations in longevity through reinsurance. The percentage is derived by comparing the IFRS sensitivity of net insurance liabilities with the sensitivity of gross insurance liabilities to changes in assumed longevity (see note E.8). The percentages disclosed for 2022 have not been restated, however the results derived under IFRS 17 are materially consistent with those previously calculated, as can be seen using the sensitivities in note E.8, which have been restated for IFRS 17.

For the following APMs, it is not possible to reconcile to the IFRS financial statements:

Measure	Definition	Why is this used
Customer satisfaction	Policyholder feedback surveys are sent to all policyholders following interaction with them (apart from complaints and bereavements).	Rothesay prides itself on the quality of the service that it provides and this **APM** provides a measure of the quality of that service.
Complaints received and upheld	The number of complaints received and upheld by Rothesay per 1,000 policyholders.	Complaints provide a useful indication of customer (dis)satisfaction.

These metrics are regularly discussed by the Customer Conduct Committee.

Glossary of terms

Adjusted equity	Adjusted equity provides a reflection of value which aligns with the long-term value of the Group. Equals total equity plus CSM net of tax less the value of sterling-denominated RT1 debt.
Adjusted operating profit before tax	See Alternative Performance Measures.
Alternative Performance Measure	Rothesay's strategy is focused on protecting the security of policyholder benefits, growth through writing value-driven new business and, ultimately, delivering sustainable shareholder value. In the opinion of the Directors, the prescribed IFRS results and disclosures do not capture long-term value creation or changes to capital requirements and therefore do not fully reflect the performance. Rothesay therefore uses a number of Alternative Performance Measures which focus on value creation and capital strength.
Annuity	A series of regular payments made to an individual until their death. Payments may be indexed.
Assets under management	See Alternative Performance Measures.
Best estimate liability (BEL)	The liabilities of Rothesay calculated on a best estimate basis under Solvency II and IFRS 17, i.e. where all the assumptions made in the calculation are best estimate.
Bulk annuity	A bulk annuity, sometimes referred to as a bulk purchase annuity, is a contract between a defined benefit pension scheme and an insurance company, whereby an insurance company insures some or all of the annuities being paid by the pension scheme.
Buy-in	Held as an asset of the pension scheme, a bulk annuity buy-in is a contract that covers all or some of the benefits for a subset of scheme members. The scheme retains responsibility for paying pensions to members but the contract protects the scheme against all risks relating to the insured benefits, for example longevity risk and inflation risk.
Buy-out	The bulk annuity buy-out is a contract that covers all of the benefits for all or a subset of scheme members. The insurer issues individual policies to members under which pensions are paid. Once all benefits are covered, the pension scheme can be wound up.
Carbon footprint	Total greenhouse gas emissions caused by an individual, entity or activity, expressed in CO_2 equivalent (CO_2e).
Carbon intensity	A measure of emissions that allows for comparison between entities of different size. It is measured in t CO_2e/million USD of revenue annually.
Carbon neutral	Carbon dioxide emissions are balanced by carbon removed through activities such as carbon sinks or removal.
Climate Material issuer	Issuers that have the greatest likelihood of having a significant impact on our exposure to climate risk.
Climate opportunities / climate solutions	Activities that relate to efforts to mitigate and adapt to climate change such as adoption of low-emission energy sources, development of new products/services
Climate scenario	A representation of future environment constructed to support investigation of the potential impacts of climate change.
CO_2e	Carbon dioxide equivalent – greenhouse gases (GHGs) all have varying warming potentials and therefore in order to report one metric, other GHGs are converted to CO_2 equivalent.

Glossary of terms continued

Collateralised agreements/ investments	Loans secured on property or other collateral.
Collective investment schemes	A way of investing money alongside other investors.
Contractual service margin (CSM)	Defined within the IFRS 17 standard as unearned profit on a group of contracts that relate to future service to be provided.
Corporate bonds and other corporate debt	These are debt securities issued by corporations which are not guaranteed by governments.
Credit risk	The risk of loss or of adverse change in the financial situation resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors.
Currency rate risk	The risk that asset or liability values, cash flows, income or expenses will be affected by changes in exchange rates. Also referred to as foreign exchange risk.
Currency translation	Gains and losses incurred when translating the overseas subsidiaries into the sterling consolidated balance sheet.
Customer satisfaction	See Alternative Performance Measures.
Deferred annuities	Annuities or pensions due to be paid from a future date or when the policyholder reaches a specified age.
Distributable profits	A company's profits available for distribution are its accumulated realised profits.
Economic profits	See Alternative Performance Measures.
Employee benefit trust (EBT)	A trust established to purchase and hold shares of the Company for delivery under employee share schemes.
Equity-based compensation	Share-based transactions awarded under incentive plans.
Fair value	Amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Finance costs	Represent interest payable on borrowings.
Financed emissions	The emissions associated with our investments, in line with the GHG Protocol Scope 3 Category 15 definition.
Fixed-for-term mortgages	Residential mortgages where the interest rate payable is fixed at outset for the whole term of the mortgage.
Full internal model (FIM)	Under Solvency II, insurer's own model used to calculate the solvency capital requirement in relation to particular risks approved by the PRA.
General Measurement Model (GMM)	The General Measurement Model is the standard approach to calculate/estimate liabilities for the insurance contract under IFRS 17.
Government, sub-sovereign and agency obligations	A bond issued by a country's government or corporate debt which is guaranteed by a government to repay borrowed money at a specific time.
Greenhouse Gas Protocol	A global framework outlining best practice for measurement and management of greenhouse gas emissions.
Green taxonomy	A system that aims to classify whether an economic activity meets specific criteria, such as alignment with net zero or specific sustainable goals.
In-force	An insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated.
Infrastructure	Investments in infrastructure such as water, energy and transportation.

Insurance acquisition cash flows	Under IFRS 17, the cash flows which have been identified as insurance acquisition cash flows are allocated to groups of insurance contracts. These cash flows include expenses associated with the origination of new business, including annual compensation for employees.
Insurance Finance Income or Expenses	Comprises the change in the carrying amount of the group of insurance contracts arising from a) the effect of the time value of money and changes in the time value of money; and (b) the effect of changes in assumption that relate to financial risk.
Insurance revenue	Under IFRS 17, the amount charged for insurance coverage when it is earned rather than when it is paid.
Insurance risk	The risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.
Insurance service expenses	Under IFRS 17, the costs incurred in providing insurance services during the year.
Insurance service result	Under IFRS 17, the insurance revenue less the insurance service expense, i.e. the insurance profit made on the provision of insurance coverage.
International Financial Reporting Standards (IFRS)	Accounting standards that are applied in preparing Rothesay's consolidated financial statements.
Investment profit from prior year	See Alternative Performance Measures.
Investment return	Comprises all interest income on financial investments at fair value through profit and loss, realised investment gains and losses and movements in unrealised gains and losses, as well as expenses directly related to investments executed during the year.
Inwards reinsurance	Reinsurance where Rothesay is acting as the reinsurer.
Liability for incurred claims (LIC)	The liability for incurred claims includes unpaid claims and expenses.
Liability for remaining coverage (LRC)	Liability for remaining coverage represents the carrying amount of a group of insurance contracts at each reporting date. The LRC comprises the future BEL and RA cash flows that relate to services to be delivered in future periods and any remaining CSM.
Lifetime mortgages	Mortgages extended to older customers (aged 55 and over) against their residential property at low loan-to-value percentage. Unlike a typical residential mortgage, no interest is paid monthly by the customer. Instead, the interest is simply added to the principal loan amount with the loan only repayable on death or entry into long-term care of the last remaining homeowner.
Limited price indexation (LPI)	LPI is a pricing index used to calculate increases in components of scheme pension payments in the UK.
Liquidity premium	An addition to the risk-free rate used when projecting investment returns and discounting cash flows on certain types of contracts where the liabilities are illiquid and have cash flows that are predictable.
Liquidity premium adjustment	In calculating the MCEV, liabilities are discounted using the risk-free rate plus a liquidity premium adjustment, designed to capture the component of yield on a portfolio of assets that is attributable to liquidity rather than credit risk.
Liquidity risk	The risk of being unable to realise investments and other assets in order to settle financial obligations when they fall due.
Longevity reinsurance (%)	See Alternative Performance Measures.

Glossary of terms continued

Longevity risk	The risk that a company could be exposed to a higher payout as a result of increasing life expectancy.
Loss Absorbing Capacity of Deferred Taxes (LACDT)	The Loss Absorbing Capacity of Deferred Taxes adjustment reflects the fact that new deferred tax assets would be created in the event that Rothesay incurred unexpected losses, resulting in an increase of Own Funds. The LACDT reduces the SCR.
LTMF	LT Mortgage Financing Limited.
Market consistent embedded value (MCEV)	See Alternative Performance Measures.
Market risk	The risk of loss or of adverse change resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.
Matching adjustment	The matching adjustment, a concept in Solvency II, is broadly equivalent to the illiquidity premium that can be earned on the illiquid assets held to back illiquid liabilities.
Matching adjustment fund	A ring-fenced fund set up for Solvency II purposes. Liabilities written into the fund are discounted at a risk-free rate plus a matching adjustment derived from the assets in the fund. Such assets must meet eligibility criteria.
Mortality tables	A table which shows, for each age, what the probability is that a person of that age and gender will die before their next birthday.
Net worth	Under MCEV, the value of equity plus the value of borrowings on an IFRS basis.
Net zero	A state in which the GHGs going into the atmosphere (anthropogenic emissions) are balanced by their removal out of the atmosphere (carbon sinks/removal).
New business	New insurance contracts and reinsurance inwards sold during the year. Includes business acquired through purchase of companies.
New business premium	New business premium is defined as the present value of premiums paid or due to be paid on new business transacted during the period.
New business profit	See Alternative Performance Measures.
No negative equity guarantee (NNEG)	Lifetime mortgages provide what is known as a NNEG, which means that the mortgage repayment amount (loan principal plus interest on redemption) cannot exceed the sale proceeds of the property on which the loan is secured.
Non-attributable costs	These are operating expenses incurred in the year that cannot be directly attributable to a portfolio of insurance contracts (see note B.3).
NZAOA	The UN-convened Net-Zero Asset Owner Alliance is a group of global asset owners setting and reporting ambitious interim targets for net-zero emissions by 2050.
Onerous contracts	An insurance contract is classified as onerous as at the date of its initial recognition if the sum of the fulfilment cash flows and the recognised insurance acquisition cash flows are a net outflow (i.e. there would have been a negative CSM).
Operational risk	The risk arising from inadequate or failed internal processes, personnel or systems, or from external events.
Own Funds	Assets in excess of those required to meet the Solvency II technical provisions. See also Alternative Performance Measures.

Own risk and solvency assessment (ORSA)	An assessment of the risk to which the business is exposed as well as solvency forecasting in a range of scenarios, including consideration of the stresses that could jeopardise Rothesay's business plans.
Partial internal model (PIM)	Under Solvency II, an insurer's own model used to calculate the solvency capital requirement in relation to particular risks approved by the PRA.
PCAF data quality score	Measure of data quality from 5 (lowest certainty) to 1 (highest certainty) under the Partnership for Carbon Accounting Financials (PCAF) standards.
Performance of in-force book	See Alternative Performance Measures.
Physical climate risk	Risks resulting from climatic events including acute and chronic impacts. Acute risks include droughts, floods, and wildfires. Chronic risks include rising temperatures, sea level rise, and an accelerating loss of biodiversity.
Pillar 1	Under Solvency II, represents the solvency capital requirement calculated using a standard formula or (partial) internal model.
Pillar 2	Under Solvency II, represents the required risk management principles and practices relating to the risk and capital estimates covered by Pillar 1.
Policyholders	Rothesay generally uses the term policyholder to refer to the individual immediate and deferred annuitants whose benefits are insured by Rothesay regardless of whether the insurance is provided under a bulk annuity (where the contract is with the pension scheme) or a reinsurance policy (where the contract is with the insurance company).
Provision for adverse deviation (PAD)	The provision for adverse deviation approach reflects the compensation that Rothesay requires for bearing the non-financial uncertainty in the liabilities.
Prudential Regulation Authority (PRA)	The PRA is the UK regulatory body responsible for prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
qx	qx is actuarial notation used to represent the probability of a life aged x dying during the year.
Reinsurance	Protection sold to or purchased from another insurance company.
Reorganisation reserve	Reflects the impact of Rothesay's reorganisation in 2013 which led to an increase in reserves of £132m, reflecting the excess of consolidated net assets to the historical cost of investment in subsidiary entities.
Responsible Investment	The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance.
Risk adjustment	Defined within IFRS 17 as the compensation that Rothesay requires for bearing the non-financial uncertainty in the (re)insurance contract liabilities.
Risk margin	Under Solvency II, the cost of transferring non-hedgeable risks.
RL	Rothesay Limited.
RLP	Rothesay Life Plc, the Group's regulated life company.
RMA1	Rothesay MA No.1 Limited.
RMA3	Rothesay MA No.3 Limited.
RMA4	Rothesay MA No.4 Limited.
RML	Rothesay Mortgages Limited (formerly known as Rothesay MA No.2 Limited).

Glossary of terms continued

RPML	Rothesay Pensions Management Limited, the Group's service company.
RSUs	Restricted share units.
S3PMA/S3PFA	S3PMA/S3PFA refer to mortality tables drawn up by the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries. These represent version 3 of the industry standard tables derived from pensioner data from self-administered pension schemes. Separate tables are utilised for males and females.
SBTi	Science based Targets initiative - SBTi is an organisation established to support companies to set emission reduction targets in line with the reductions required to limit global temperature rise to 1.5°C.
Scope 1 emissions	Measured in tCO_2e annually. Direct emissions that occur from sources controlled by the entity in question. For example, emissions from a gas-fired boiler on company premises.
Scope 2 emissions	Measured in tCO_2e annually. Indirect emissions largely associated with the purchase of electricity by the entity in question to operate their business and buildings including purchased electricity, municipal heating and cooling. Scope 2 emissions can be calculated as Location based: operational emissions using an average emissions intensity for the energy system on which energy consumption occurs; or Market based: operational emissions using actual energy consumption of the entity.
Scope 3 emissions	Measured in tCO_2e annually. Emissions that are the result of activities elsewhere in the value chain of the entity in question. These include emissions produced indirectly, through purchased goods and services, business travel, employee commuting, and investments. The Scope 3 emissions of one entity are the Scope 1 and 2 emissions of other entities.
SCR coverage %	See Alternative Performance Measures.
Secured investments	Bespoke investments where very high levels of collateral have been negotiated and returns are generated through illiquidity premium.
Share-based payment reserve	The share-based payment reserve relates to equity-based compensation awards.
Sk	Smoothing parameter in the CMI longevity improvement model determining the weighting on recent experience. Given recent improvements, a higher Sk than adopted by RL will generally lead to a higher initial assumed rate of mortality improvement.
Solvency capital requirement (SCR)	See Alternative Performance Measures.
Solvency II	The solvency regime applicable from 1 January 2016. Under Solvency II, Rothesay is required to hold the greater of the capital required under the new Solvency II Pillar 1 framework and the capital required under Rothesay's own economic capital model Solvency II Pillar 2.
SONIA	The Sterling Overnight Index Average, abbreviated to SONIA, is the effective overnight interest rate paid by banks for unsecured transactions in the British sterling market.
Streamlined Energy and Carbon Reporting (SECR)	Reporting on the energy use, carbon emissions and emissions intensity associated with our UK operations.

Subordinated loan	A fixed interest issue or debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for added risk through higher rates of interest. Under Solvency II, subordinated debt is not treated as a liability and counts towards the coverage of the required minimum margin of solvency with limitations.
Sustainability risks	An Environmental, Social or Governance (ESG) event or impact that could cause a negative impact including financial and reputational.
TCFD	Taskforce for Climate-related Financial Disclosures – an international initiative established by the Financial Stability Board (FSB) in 2015 to develop recommendations for disclosing climate-related financial risks and opportunities in various sectors of the economy.
Temperature alignment	A forward-looking metric that attempts to convey the future trajectory of greenhouse gas emissions of a given entity or portfolio in terms of its estimated global temperature rise.
Third party administration (TPA) agreement	Contract with pensions administrator to process claims and payroll on behalf of Rothesay.
Transition plan	A transition plan sets out an organisation's approach for how it will align all its activities to net zero.
Value of new business on an MCEV basis	See Alternative Performance Measures.
Yield	A measure of the income received from an investment compared to the price paid for the investment. Normally expressed as a percentage.

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