Rothesay

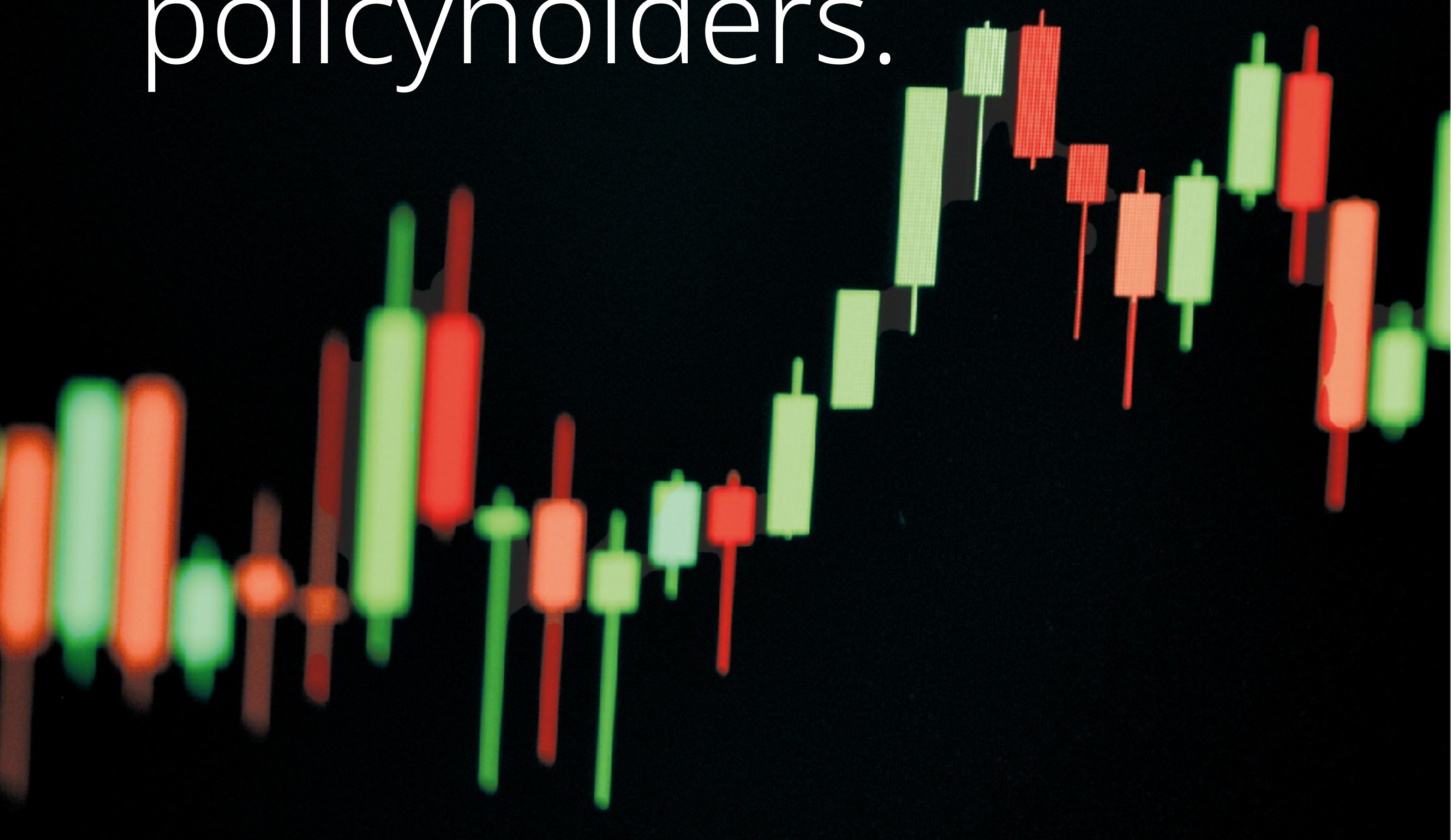
Building for the future

Rothesay Life Plc

Interim condensed consolidated financial statements
for the six months ended 30 June 2023

Our purpose

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



Contents

Rothesay refers to Rothesay Life Plc (RLP) and its subsidiaries, together, the Group.

Who we are

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

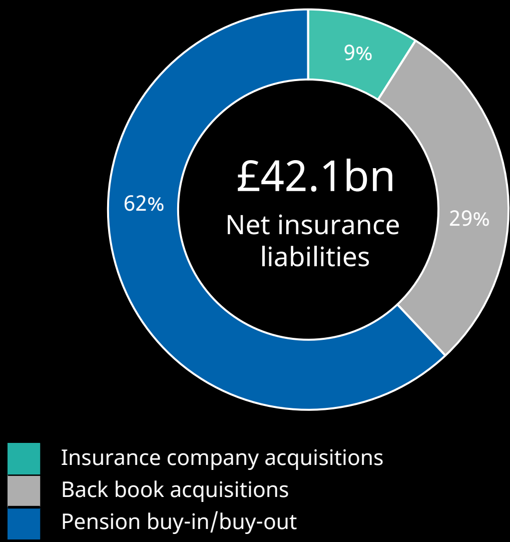
Rothesay is a leading UK specialist pensions insurer, purpose-built to protect pension schemes and their members' pensions. Our singular focus is to secure pension annuities for the future, providing certainty as well as service excellence for our policyholders.

Our careful approach to investment and prudent underwriting mean we are trusted by the pension schemes of some of the UK's best known companies to provide pension solutions, including Asda, British Airways, Cadbury, the Civil Aviation Authority, the Co-operative Bank, National Grid, Morrisons, Post Office and Telent.

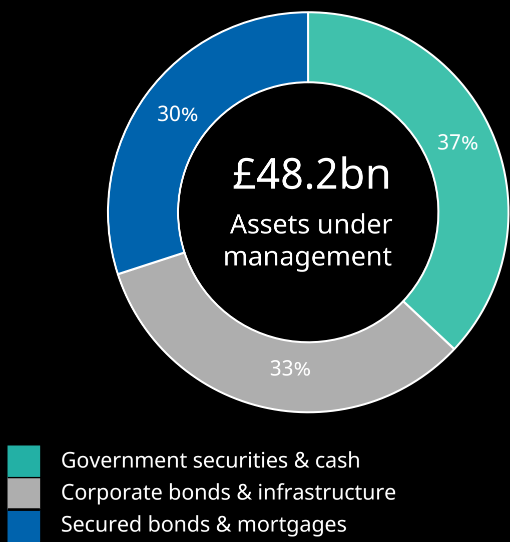
Underpinned by sophisticated risk management, our expert in-house investment team is continually developing new ways to drive predictable, dependable returns that reduce risk and create real security.

Today, we manage over £48bn in assets, secure the pensions of over 840,000 people, and pay out, on average, over £200m in pension payments each month. We are securing 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



Backed by high quality investments



Performance at a glance

	HY2023	HY2022	FY2022
New business premium **APM**[1]	**£1.9bn**	£1.0bn	£3.3bn
Solvency capital requirement (SCR) coverage **APM**	**313%**	251%	258%
Longevity reinsured **APM**	**88%**	89%	89%
Adjusted operating profit **APM***	**£405m**	£161m	£582m
IFRS profit before tax*	**£263m**	(£798m)	(£1,048m)
Customer satisfaction **APM**	**95%**	93%	95%
Assets under management **APM**	**£48.2bn**	£52.0bn	£47.1bn
Number of policies	**842,248**	813,986	825,466
Paid to policyholders in the period	**£1.4bn**	£1.4bn	£2.9bn

A glossary of terms used can be found on page 97.

[1] APM - Alternative Performance Measure; please see page 13 for further details.
*Restated HY2022 and FY2022 due to the implementation of IFRS 17.

2 Strategic report

Chief Executive's statement

Good results and substantial capital mean that we are well-positioned in a buoyant pension de-risking market.

Tom Pearce
Chief Executive Officer

Chief Executive's statement

The first half of 2023 saw a record new business pipeline.

Improved pension scheme funding as a result of rising interest rates, contributions from sponsors and the run-off of closed schemes mean that pension scheme buy-out is increasingly affordable, with market analysts suggesting that the next few years could see pension risk transfer volumes of over £50bn a year.

In the first half of 2023, we assisted five pension schemes to de-risk, generating £1.9bn of new business premiums (HY2022: £1.0bn, FY2022: £3.3bn) . This included transactions with three existing clients. Since 30 June 2023, we have written another £0.5bn of business, are exclusive on a further £7bn of new business and have a strong new business pipeline. In May 2023, we successfully raised a further £500m of Tier 2 debt in recognition of this record new business pipeline.

We have continued to see economic turbulence in the first half of 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. By the end of the first half of 2023, we had seen further increases in interest rates, particularly at short durations, and modest improvements in credit markets.

As a business, Rothesay is designed to protect pensions through even the most difficult times. 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 and solvency position of Rothesay allows us to respond dynamically as the market evolves. This, combined with the further debt issuance, ensured that we ended the half year with a very robust SCR coverage of 313% (HY2022: 251%, FY2022: 258%), substantially above our target operating range and giving us significant excess capital to write new business.

Following the end of the first half of the year, we approved an interim dividend of 68.83p per share or £351m.

Financial results

From 1 January 2023, we are 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 are not expected to impact new business pricing, our dividend policy or our business strategy.

Adjusted operating profits **(APM)** for the first half of the year were £405m (HY2022 restated: £161m, FY2022 restated: £582m). Borrowing costs and the increase in the Contractual Service Margin (CSM) then resulted in IFRS pre-tax profits of £263m (HY2022 restated loss: £(798)m, FY2022 restated loss: £(1,048)m).

The implementation of IFRS 17 has led to a significant reduction in total equity and lower restated comparative profits for 2022 because under IFRS 17 the release of profit is spread over the lifetime of the contract and this change is applied retrospectively to past business.

Further detail on the adoption of IFRS 17 can be found on page 17 and in note A.3.

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 increasing to £48.2bn (HY2022: restated £52.0bn, FY2022: restated £47.1bn).

Chief Executive's statement continued

Risk and capital management

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

Rothesay's application to use a full internal model (FIM) was approved by the Prudential Regulation Authority (PRA) in the first half of 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.

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 two new longevity reinsurance agreements in the first half of 2023 and have now reinsured 88% of our longevity exposure **(APM)** (HY2022: 89%, FY2022: 89%).

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 details of the reforms are still being finalised but may be partially implemented on 31 December 2023.

In July 2023, we were delighted to receive the European Pensions Award for Risk Management Firm of the Year.

Our policyholders

Providing over 840,000 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 pleased to say that we maintained high service standards during the period, with over 95% **(APM)** (HY2022: 93%, FY2022: 95%) of customers rating the quality of service received 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. 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.

Our people

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

Environmental, social and governance matters

Rothesay is determined to play its part in combatting climate change and global warming. Our own operations are carbon neutral (as certified by The CarbonNeutral Protocol) and we are making progress in reducing the carbon intensity of our investment portfolio. We have committed to reducing the carbon intensity of our portfolio by 20% in the five-year period to 2025 and have observed a 13% reduction so far. We have also committed to reducing the carbon intensity of our NZAOA (Net-Zero Asset Owner Alliance) sub-portfolio by 50% by 2030. In February 2023, we announced that we have become a signatory to the Financial Reporting Council's UK Stewardship Code.

For more information, please see our 2022 TCFD (Task Force on Climate Related Financial Disclosures) and Sustainability reports which will be published later this year.

Chief Executive's statement continued

Charitable donations

In response to the continuing conflict in Ukraine, we are encouraging our people to make monetary donations to support the relief effort by matching donations on a 3-to-1 basis.

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. Early feedback suggests that on average, an Age UK benefits check identifies entitlement to an extra £2,000 of benefits per person per annum.

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

Changes to the Board

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.

On 30 April 2023, Jackie Hunt stepped down from the Board.

On 10 July 2023, Lisa Arnold was appointed to the Board as an independent Non-Executive Director, bringing her extensive experience as a pension scheme trustee.

After almost nine years as Chief Financial Officer (CFO), Andrew Stoker has also 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 current Head of Strategy and Chief Underwriting Officer, will join the Board and take on the role of CFO.

Looking forward

Improved pension scheme funding levels driven by the rising interest rates environment are making de-risking increasingly affordable for pension schemes and many scheme sponsors are reconsidering the benefit of pension de-risking in the light of recent market turbulence. This is generating exciting new business opportunities and a record new business pipeline. We are fortunate in having two long-term, supportive shareholders and this, combined with our track record of executing large complex transactions and robust financial position, means that we are in a strong position to take advantage of the growth opportunities we can see.

I am confident as we look ahead that Rothesay will continue to build on its significant growth over the past sixteen 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
11 August 2023

New business premium **(APM):**
£1.9bn
HY2022: £1.0bn

RLP SCR coverage
313%
FY2022: 258%

Business review

New business

Funding for many pension schemes has improved as a result of the increase in long-term interest rates and high near-term inflation. De-risking is increasingly affordable for schemes and this has led to a record new business pipeline and conversations with a number of very large pension schemes regarding the feasibility of de-risking. Given our financial strength and track record of executing large complex transactions, we are well-positioned for such conversations.

As noted above in the Chief Executive's statement, during the first half of 2023, we assisted five pension schemes in de-risking their liabilities, resulting in new business premiums **(APM)** of £1.9bn (HY2022: £1.0bn, FY2022: £3.3bn). Since 30 June 2023, we have written another £0.5bn of business and entered into exclusivity arrangements in relation to a further £7.0bn of liabilities. We now have a record new business pipeline.

During the first half of 2023, we entered into two new longevity reinsurance agreements, one of which is in relation to historic business and one in relation to business written in 2023.

Investment activity

Our in-house team is responsible for the management of Rothesay’s £48bn asset portfolio. Assets are sought which match our liability cash flows and which provide an appropriate risk-adjusted return. Rothesay operates a cautious investment strategy which seeks to diversify exposure and actively manages risk. We are constantly looking for new ways to reduce risk and achieve the dependable returns that create real security for people's pensions in the future.

At the end of 2022, we had largely invested our assets according to our long-term investment strategy so the focus in the first half of 2023 was on investing premiums received in the period as well as opportunistically selling assets and replacing them with assets of higher credit quality, lower carbon intensity or increased yield.

Rothesay’s investment portfolio is focused on highly rated assets with over half of our rated assets having a rating of AAA or AA. 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 also backs some of our very long-dated cash flows.
- **Corporate bonds and infrastructure** – We also invest in a diversified portfolio of corporate bonds, including regulated infrastructure such as water, energy and transportation.
- **Secure, illiquid assets** – These assets include loans secured against property, mortgages and loans secured against other 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.

Of our £18bn holding of corporate bonds and infrastructure, around 33% (HY2022: 31%, FY2022: 33%) (or 11% of total assets) is rated BBB and of those only £0.1bn is rated BBB- (HY2022: £0.2bn, FY2022: £0.2bn). Rothesay holds only £51m of sub-investment grade bonds (HY2022: £nil, FY2022: £11m).

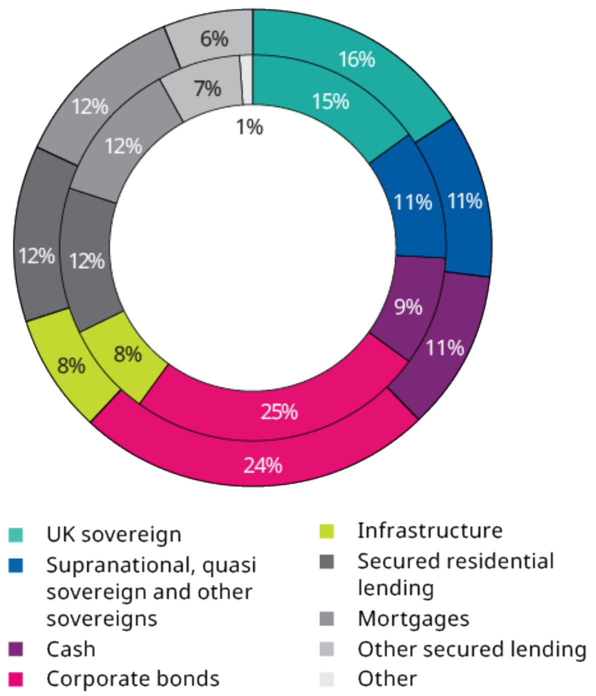
Strong origination of lifetime mortgages during the first six months of 2023 means that as at 30 June 2023, our total lifetime mortgage portfolio has increased to £5.5bn (HY2022: £5.7bn, FY2022: £5.1bn) or 11% of assets under management (HY2022: 11%, FY2022: 11%). We remain cautious in underwriting mortgages in a more challenging market, with newly originated lifetime mortgages having an average loan-to-value ratio of 26% (HY2022: 30%, FY2022: 34%).

We also continue to fund long-term, fixed rate mortgages in the UK and the Netherlands. As at 30 June 2023, our long-term fixed rate mortgage portfolio has grown to £1.2bn (HY2022: £0.9bn, FY2022: £1.1bn).

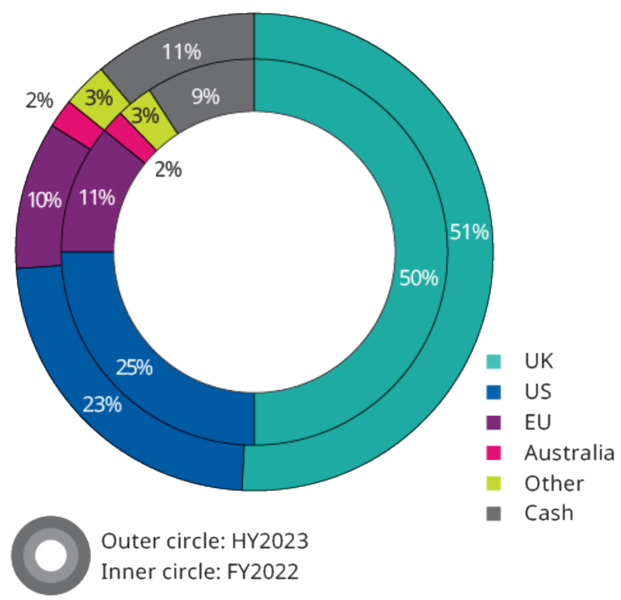
The following charts provide a breakdown of our investment portfolio at 30 June 2023 and 31 December 2022 by sector and geography.

Business review continued

Our investments



International diversification



Responsible investment

The in-house investment team considers environmental, social and governance factors as part of the investment process 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 transitioning our investment portfolio to net zero greenhouse gas emissions by 2050, aligned with the goal of the Paris Agreement to limit global warming to 1.5°C above pre-industrial levels. We have set the interim goal of reducing the carbon intensity of our investment portfolio by 20% in the five-year period to 2025 and estimate that the carbon intensity of our portfolio had fallen by 13% by the end of 2022. This is based upon measurements covering 93% of our portfolio with a high PCAF data quality score of 2.5. We have also now committed to reducing the carbon intensity of our NZAOA sub-portfolio by 50% by the end of 2030.

In February 2023, we announced that we have become a signatory to the Financial Reporting Council's UK Stewardship Code. We are also a signatory to the UN Principles for Responsible Investing, a supporter of the Task Force on Climate-related Financial Disclosures and an adopter of the Sustainability Reporting Standard for Social Housing.

For more information, see our 2022 TCFD and Sustainability reports which will be published later this year.

Business review continued

Operations and customer service

The focus in the first quarter of 2023 was to transfer the 350,000 former Prudential policyholders from Prudential's third party administrator, Diligenta, without adversely impacting service to the transferring customers. Meticulous planning, extensive testing in advance and careful oversight helped ensure that the transfer went smoothly which means that former Prudential policyholders will experience the same high quality service provided to our other policyholders.

In May, we were informed by Capita, one of our third party administrators, that the personal data of approximately 50,000 individuals – limited to former members and dependants of Telent's GEC 1972 Plan who joined Rothesay in 2019 – was impacted by a cyber incident at Capita. Capita has confirmed these are the only Rothesay policyholders affected.

We quickly acted to contact the impacted individuals and to offer them access to a specialist fraud monitoring service, free of charge, as a precaution. No pension payments were impacted and we have not found any evidence that any Rothesay policyholder data has been misused, or that it is available illegally, including on any third-party websites. In addition to security measures being taken by Capita, Rothesay has employed independent cyber security experts to continue to verify that this remains the case. Rothesay's own systems were not impacted by the Capita cyber incident.

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

As noted in the Chief Executive's statement, during the first half of 2023, over 95% **(APM)** (HY2022: 93%, FY2022: 95%) of customers rated the quality of service they received as good or excellent. Unfortunately our complaint levels have increased as a result of Capita's cyber incident and the associated impact on service, although they remain relatively low by industry standards with 1.91 complaints received per 1,000 policyholders **(APM)** (HY2022: 1.31 complaints per 1,000, FY2022: 1.37 complaints per 1,000) of which 0.60 complaints per 1,000 policyholders were upheld **(APM)** by us following a thorough investigation (HY2022: 0.43 complaints per 1,000, FY2022: 0.47 complaints per 1,000).

Rothesay has undertaken an assessment of its readiness for the implementation of the new Consumer Duty rules by 31 July 2023, following a project sponsored by the Chief Compliance Officer and Deputy Chief Operating Officer, and championed by Terry Miller, Rothesay's Board-level Consumer Duty Champion. 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-focused policies will support embedding and monitoring post implementation. The Board will formally review and agree an assessment of Rothesay's compliance with the Consumer Duty annually.

During 2021, we started to administer pension buy-ins in-house, rather than outsourcing this activity. We are now doing the work in-house for twelve schemes and work continues to in-source more such activity, including for some existing buy-ins where conversion to buy-out is not envisaged in the next few years. Doing the work in-house ensures that we can build and maintain close working relationships with our pension scheme counterparties and their administrators and allows us to leverage our risk management systems to minimise discrepancies.

Financial review

The financial review describes the financial performance of Rothesay Life Plc 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 17.

Rothesay made an adjusted operating profit **(APM)** before tax of £405m (HY2022 restated: £161m, FY2022 restated: £582m) **(APM)** 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 £263m (HY2022: restated loss of £(798)m, FY2022: restated loss of £(1,048)m).

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 as the CSM created from new business written in the period exceeds the CSM released in the period. If no new business is written then the reverse is likely to be true. The net increase in CSM in the first half of 2023 was £85m (HY2022: £6m, FY2022: £170m) as shown in the table below:

Movement in CSM	HY2023 £m	HY2022 £m	FY2022 £m
CSM at the start of the period	**4,461**	4,291	4,291
New business CSM	**152**	105	361
Interest accretion on CSM	**50**	35	74
Change in CSM as a result of experience and assumption changes	**55**	11	43
Release of CSM	**(172)**	(145)	(308)
Increase in CSM	**85**	6	170
CSM at the end of the period	**4,546**	4,297	4,461

The financial performance analysis shown in the table on the next page 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 94.

New business profit **(APM)** represents the value of the premiums charged less the best estimate liabilities, risk adjustment and allocated acquisition expenses. As such, it is equal to the new business CSM including the impact of new reinsurance. New business profit **(APM)** for the period was £152m (HY2022: £105m, FY2022: £361m).

Profits generated on the in-force book **(APM)** were £251m (HY2022: £75m, FY2022: £246m). 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 led to an increase in adjusted operating profits **(APM)** of £2m (HY2022: loss of £(19)m, FY2022: loss of £(25)m). In practice, such gains are largely held back under IFRS 17 leading to an increase in CSM.

Financial review continued

The net increase in CSM of £85m for the period is offset against the profit for the period (HY2022: a net increase of £6m, FY2022: a net increase of £170m). A breakdown of the change in CSM is provided on page 12.

Rothesay made economic losses **(APM)** in the period of £(5)m (HY2022: £(905)m, FY2022: £(1,365)m). Economic (losses)/profits **(APM)** represent the change in value of assets from changes in economic conditions less the change in value of liabilities from those changes. In the first half of 2023, economic losses from the impact of increases in long-term interest rates were largely offset by tightening credit spreads and other changes in economic conditions.

Financial performance (Alternative analysis of profit generation) (APM)	HY2023 £m	HY2022 restated £m	FY2022 restated £m
New business profit	**152**	105	361
Performance of in-force book	**251**	75	246
Non-economic assumption changes and model refinement	**2**	(19)	(25)
Adjusted operating profit before tax	**405**	161	582
Increase in CSM	**(85)**	(6)	(170)
Borrowing costs	**(52)**	(48)	(95)
Economic losses	**(5)**	(905)	(1,365)
IFRS profit/(loss) before tax	**263**	(798)	(1,048)

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 94, 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.

Financial review continued

IFRS income statement highlights

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

Income statement highlights	HY2023 £m	HY2022 restated £m	FY2022 restated £m	Commentary
Insurance revenue	**1,492**	1,379	2,890	Insurance revenue represents the consideration for providing the insurance service in the period, which includes expected claims and directly attributable expenses, release of risk adjustment and CSM amortisation.
Insurance service expense	**(1,287)**	(1,215)	(2,530)	Insurance service expense represents actual claims and directly attributable expenses paid.
Net expense from reinsurance contracts held	**(21)**	(6)	(29)	Represents reinsurance service expense (actual reinsurance claims) less reinsurance revenue (expected unwind of reinsurance liabilities plus expected reinsurance claims).
Insurance service result	**184**	158	331	The insurance service result is the difference between the actual and expected cost of delivering the insurance service.
Net investment income/ Investment return	**305**	(10,106)	(15,376)	Investment returns for Rothesay are unchanged by the introduction of IFRS 17.
Net insurance finance income	**65**	9,215	14,234	Under IFRS 17, net insurance finance income 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	**554**	(733)	(811)	The net insurance and investment result is the profit/(loss) before unattributable expenses and finance costs.
Other operating expenses	**(46)**	(8)	(43)	Under IFRS 17, only those expenses not directly attributable to the fulfilment of portfolio of insurance contracts are separately disclosed in the income statement. A breakdown of expenses is provided in note B.3.
Finance costs	**(245)**	(57)	(194)	Finance costs represent interest payable on borrowings and on collateral. These costs are unchanged by the introduction of IFRS 17.
Profit/(loss) before tax	**263**	(798)	(1,048)	
Income tax	**(62)**	206	274	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	**201**	(592)	(774)	

Financial review continued

IFRS statement of financial position

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

Statement of financial position highlights	HY2023 £m	HY2022 restated £m	FY2022 restated £m
Financial investments	**95,006**	81,489	90,928
Reinsurance contracts assets	**73**	23	54
Deferred tax assets	**666**	613	702
Other assets	**2,601**	2,358	3,323
Total assets	**98,346**	84,483	95,007
Share capital and share premium	**510**	2,463	510
Tier 1 notes	**793**	793	793
Reserves	**3,029**	1,081	2,839
Total equity	**4,332**	4,337	4,142
Insurance contract liabilities	**41,345**	45,361	40,993
Reinsurance contract liabilities	**849**	1,052	848
Payables and financial investment liabilities	**49,399**	31,851	47,126
Borrowings	**2,246**	1,759	1,764
Other	**175**	123	134
Total liabilities	**94,014**	80,146	90,865
Total equity and liabilities	**98,346**	84,483	95,007

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 HY2022 and FY2022 in the table above.

Financial review continued

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 £47.1bn as at 31 December 2022 to £48.2bn as at 30 June 2023. The impact of new business premiums on assets under management has been partly offset by the run-off of in-force business. A reconciliation of assets under management is provided in the notes on Alternative Performance Measures on page 94.

Borrowings
Borrowings increased to £2,246m (HY2022: £1,759m, FY2022: £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 in the period to utilise the transitional losses, the value of the deferred tax asset fell by £33m. 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 £41.3bn as at 30 June 2023. This move was largely driven by the impact of new business, partially offset by the run-off of the liabilities (see note E.1).

Total equity and adjusted equity (APM)
The increase in total equity (an increase of £190m from £4,142m at 31 December 2022 to £4,332m at 30 June 2023) was driven by IFRS net profit less RT1 coupons during the first half of 2023.

The introduction of IFRS 17, led to a reduction in Group equity of £2.1bn (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 £2.0bn and a corresponding increase in the profit and loss reserve in the second half of 2022. Please see note C.3.

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 IFRS 17 equity **(APM)** of £6.9bn (HY2022: £6.8bn, FY2022: £6.7bn).

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 HY2022 and FY2022 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.

Excellent progress on the implementation of IFRS 17 was made through 2022 and IFRS 17 results are now 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.

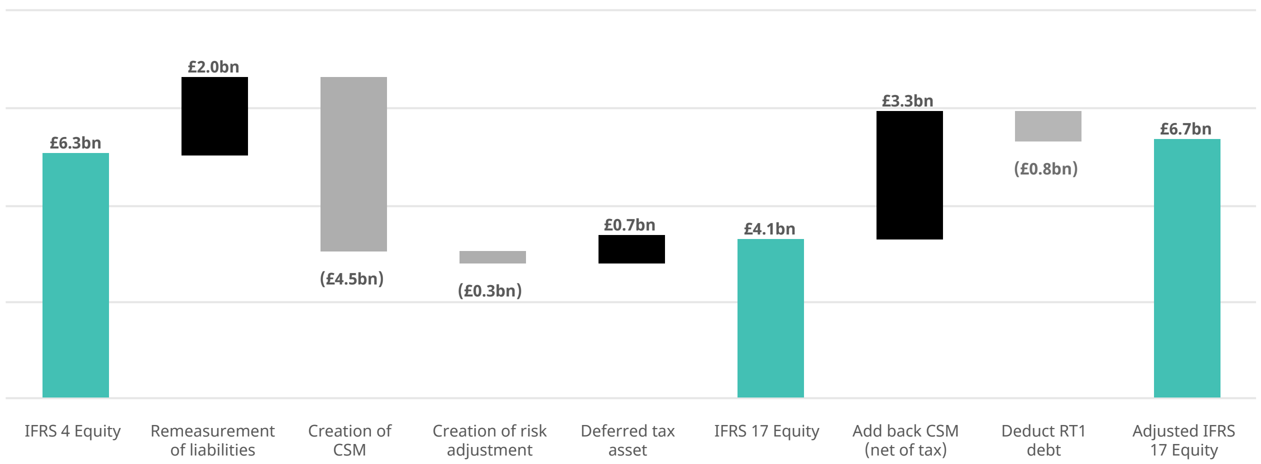
Application of IFRS 17 and IFRS 9 continued

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.

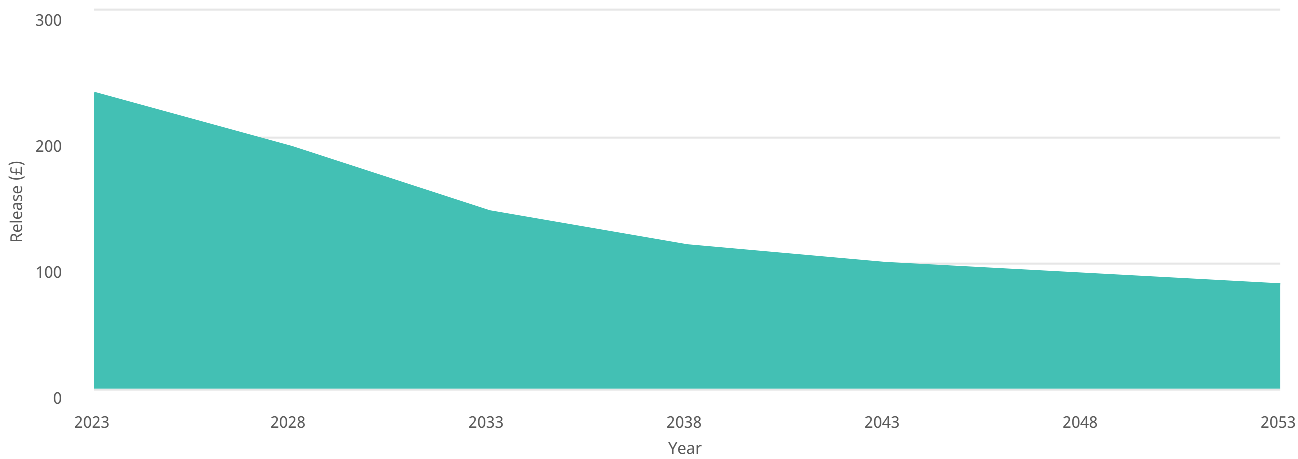
The restated loss before tax under IFRS 17 for 2022 was then £1.1bn. The combined impact on the balance sheet of the retrospective changes required under IFRS 17 and the restated losses for 2022 is shown in the chart below (numbers do not add up due to rounding). These changes led to a reduction in Group 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 IFRS 17 adjusted equity **(APM)** of £6.7bn.

Impact on RLP 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



Application of IFRS 17 and IFRS 9 continued

Comparison of profits under IFRS 4 and IFRS 17 (FY2022)

Under IFRS 4, net profit before tax for 2022 was £176m. This compares to a restated loss before tax under IFRS 17 of £(1,048)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:

FY2022 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	**2,890**	N/A	Insurance revenue represents the consideration for providing the insurance service in the period, 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	**331**	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 income/(expenses)	**14,234**	N/A	Under IFRS 17, net insurance finance income 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	**(43)**	(229)	Under IFRS 17, only those expenses not directly attributable to the fulfilment of 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 in the period, £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	**(194)**	(194)	Unchanged by the introduction of IFRS 17.
(Loss)/profit before tax	**(1,048)**	176	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 £216m rather than £176m.

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 FY2022 report and accounts except that the results have been adjusted as noted in the table to ensure broadly consistent treatment of expenses:

FY2022 Income Statement Highlights	IFRS 17 £m	IFRS 4 adjusted £m	Commentary
New business profit (assuming assets fully invested)	**361**	167	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). The IFRS 4 result has been amended here to also include the IFRS 17 attributable acquisition expenses of £79m.
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	**246**	643	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 (£158m) 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)	**582**	993	
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	**(95)**	(95)	
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	**(1,048)**	176	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 £216m rather than £176m.

Risk and capital management

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 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 provide excellent customer service.
- To safeguard Rothesay's reputation.

The risk management framework is intended to ensure that we identify and understand all of the risks inherent in the business. Where appropriate, longevity reinsurance, asset liability matching and hedging strategies are used to manage that risk and to optimise use of capital. 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.

We look to mitigate credit risk through investing in assets that benefit from collateral and structural protections. Rothesay's liquidity position has remained robust throughout the period and we continue to hold significant liquidity buffers.

Good progress is being made on the development 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 cyber risks.

We were disappointed that the personal data of some of our policyholders was impacted by Capita's cyber incident. As soon as we were made aware of the incident, an internal crisis management team was convened, ensuring that we could respond rapidly as the incident unfolded.

We are continuing to work very closely with Capita to understand how its cyber incident occurred, what steps it has subsequently taken to confirm its systems are secure, and what improvements it has made to its information security controls. We are also carrying out a wider internal review to ensure that lessons learnt are shared with our other strategic business partners and factored into our own crisis management planning.

Following their periodic reviews, Rothesay Life Plc (RLP)'s insurance financial strength ratings have been reaffirmed as A2 by Moody's Investors Service and A+ by Fitch Ratings.

Except as discussed herein, the principal risks remain unchanged from the period ended 31 December 2022.

Interest rates and inflation

The first half of 2023 has seen further increases in short-term interest rates and continuing focus on the elevated rate of inflation. Rothesay's main exposure to inflation arises from the inflation-linkage of our liabilities.

We operate a dynamic capital management framework which uses interest rate and other hedging to try to protect both the solvency position and the embedded value of the business by hedging somewhere between the two. This is facilitated by our access to real-time solvency information. Our approach to hedging means that the balance sheet under IFRS 4 was relatively closely hedged whereas the IFRS 17 balance sheet is effectively over-hedged.

Despite the hedging that we undertake, we are not completely insulated from the impact of inflation and high short-term interest rates on the real economy and we have reviewed our investment portfolio to ensure that we are not overly exposed to counterparties that are themselves likely to be adversely impacted by inflation or high interest rates. We had no direct exposure to Silicon Valley Bank or Signature Bank at the time of their collapse, and no material exposure to Credit Suisse. We have also considered the impact of current economic conditions on property prices, marking down the value of underlying property for a number of our commercial real estate loans and for our mortgage portfolio.

Risk and capital management continued

Capital management

Rothesay aims to maintain solvency coverage in the range of 130% to 150% 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 uses interest rate and other hedging to try and protect both the solvency position and the embedded value of the business by hedging somewhere between the two. This is facilitated by our access to real-time solvency information.

As at 30 June 2023, Rothesay had an SCR coverage ratio **(APM)** of 313% (HY2022: 251%, FY2022: 258%), giving us significant excess capital to write new business. The solvency positions of RLP is summarised in the table below.

Solvency position of RLP	HY2023 £m	HY2022 £m	2022 £m
Tier 1 capital	**6,919**	6,952	6,868
Tier 2 capital	**1,323**	889	849
Tier 3 capital	**428**	457	434
Own Funds available to meet SCR	**8,670**	8,298	8,151
Ineligible capital	**(436)**	n/a	n/a
Own Funds (APM) eligible to meet SCR	**8,234**	8,298	8,151
SCR	**2,631**	3,305	3,162
Surplus above SCR	**5,603**	4,993	4,989
SCR coverage (APM)	**313%**	251%	258%
SCR coverage without transitional solvency relief	**286%**	220%	235%

The value of transitional solvency relief was recalculated on 31 December 2022. Transitional solvency relief reduces by 1/16th on 1 January each year. Transitional solvency relief has fallen as long-term interest rates have increased and now covers 29% of the risk margin (HY2022: 41%, FY2022: 32%). If transitional solvency relief had been recalculated as at 30 June 2023 then SCR coverage would have been reduced by around 2%.

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.

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 the first half of 2023 reflects the impact of adopting the FIM. Comparatives have not been restated.

Risk and capital management continued

Composition of SCR (%)	HY2023	HY2022	FY2022
Market risk	**68**	70	72
Insurance risk	**20**	17	17
Operational risk	**6**	6	6
Counterparty risk	**6**	7	5

An analysis of the change in surplus above SCR is shown in the table below. Surplus above SCR has increased from £4,989m to £5,603m (after allowing for amortisation of 1/16th of transitional solvency relief on 1 January 2023) as a result of the issuance of £500m of Tier 2 debt, the increase in long-term interest rates and the introduction of the FIM.

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 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	HY2023 £m	HY2022 £m	FY2022 £m
Opening surplus	**4,989**	4,704	4,704
Amortisation of 1/16th of transitional on 1 January	**(52)**	(133)	(133)
New business (on a fully invested basis)	**(171)**	(64)	(264)
Impact of temporarily being invested in gilts	**32**	—	—
Impact from investing prior year's premiums	**—**	(120)	(120)
Performance of in-force book	**246**	198	776
Non-economic assumption changes	**37**	—	7
Operating surplus generation	**92**	(119)	266
Borrowing costs	**(74)**	(58)	(129)
Economic conditions	**193**	535	540
Impact of LACDT	**11**	(69)	(147)
Impact of new business not in MA fund	**(44)**	n/a	(245)
New capital issuance	**279**	—	—
Full internal model implementation	**119**	n/a	n/a
Impact of not recalculating transitional at HY2023	**38**	n/a	n/a
Surplus generation	**614**	289	285
Closing surplus	**5,603**	4,993	4,989

Solvency II borrowing costs are £22m lower than under IFRS due to the coupons paid on sterling-denominated RT1 notes being recognised as a deduction from Own Funds, whereas on IFRS they are treated as an appropriation of profit.

The Board approved the payment of an interim dividend on 6 July 2023; the size of this payment is £351m. Had the dividend been recognised on 30 June 2023 then SCR coverage at RLP would have reduced by 13% on a pro forma basis.

Risk and capital management continued

Solvency II reform

In November 2022, HM Treasury announced its response to the consultation on Solvency II reform. The main changes from a capital perspective are:

- The risk margin reduction is to be calibrated to give a 65% reduction for long-term life insurance business;
- The fundamental spreads used in derivation of the matching adjustment will be made more granular, by introducing rating notches, for example the fundamental spread for an A+ rated asset will be lower than the spread used for an A- rated asset;
- The matching adjustment on sub-investment grade assets will no longer be capped at the spread on an investment grade asset; and
- There will be a mechanism to allow firms to make voluntary add-ons to the fundamental spreads.

Other changes include:

- A widening of Matching Adjustment eligibility rules to include "highly predictable cash flows", with prudent haircuts. These changes should facilitate investment in a wider range of assets, particularly infrastructure and other productive assets.
- A strengthened role of stress testing with results to be published by the firm.
- A Senior Manager will need to attest to the appropriateness of the Matching Adjustment.

The details of the reforms are in the process of being finalised and will not be implemented in full until 2024.

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 2023, 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 note E 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 three 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 December 2022. 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, were the Group to be 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.

Report of the Directors

The Directors present their interim condensed consolidated financial statements for Rothesay Life Plc (the Company, Rothesay or RLP), registered number 06127279, for the period ended 30 June 2023. RLP is a registered public limited company incorporated and domiciled in the United Kingdom.

Comparative information has been presented for the period ended 30 June 2022 and the year ended 31 December 2022.

The Directors of Rothesay confirm that to the best of their knowledge these interim condensed consolidated financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and that the interim financial report includes a fair review of the information, namely:

- An indication of important events that have occurred during the six months ended 30 June 2023 and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related-party transactions in the six months ended 30 June 2023 and any material changes in the related-party transactions described in the last Annual Report.

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

- Jackie Hunt stood down from the Board on 30 April 2023;
- Geoff Craddock and Arjun Gupta were appointed to the Board on 20 January 2023; and
- Lisa Arnold was appointed to the Board as an independent Non-Executive Director on 10 July 2023.

Post balance sheet event

On 6 July 2023, the Board approved a dividend, the quantum of which was confirmed by a sub-committee of the Board as 68.83p per share (or £351m) on 8 August 2023. Had the dividend been paid on 30 June 2023 then the profit and loss reserve would have fallen by £351m to £2,667m.

The financial statements were authorised for issue by the Board of Directors on 11 August 2023.

Rothesay Life Plc

Board of Directors

Chairman

Naguib Kheraj

Executive Directors

Tom Pearce

Andrew Stoker

Founder Non-Executive Director

Addy Loudiadis

Shareholder Non-Executive Directors

Tim Corbett

Geoff Craddock

Arjun Gupta

Robin Jarratt

Independent Non-Executive Directors

Lisa Arnold

Stan Beckers

Angela Darlington

Ed Giera

Heather Jackson

Terry Miller

Charles Pickup

Bill Robertson

ON BEHALF OF THE BOARD

Tom Pearce
Chief Executive Officer
11 August 2023

Section

3

Financial statements

Condensed consolidated statement of comprehensive income

FOR THE PERIOD ENDED 30 JUNE 2023

	Note	HY2023 £m	HY2022 restated £m	FY2022 restated £m
Insurance revenue	B.1	**1,492**	1,379	2,890
Insurance service expense	B.1	**(1,287)**	(1,215)	(2,530)
Net expense from reinsurance contracts held	B.1	**(21)**	(6)	(29)
Insurance service result		**184**	158	331
Total investment return	B.2	**305**	(10,106)	(15,376)
Finance income for insurance contracts issued	B.2	**105**	9,363	14,190
Finance (expense)/income for reinsurance contracts held	B.2	**(40)**	(148)	44
Net insurance finance result		**65**	9,215	14,234
Net insurance and investment result		**554**	(733)	(811)
Operating expenses	B.3	**(46)**	(8)	(43)
Finance costs	B.4	**(245)**	(57)	(194)
Profit/(loss) before tax		**263**	(798)	(1,048)
Income tax (expense)/credit	B.5	**(62)**	206	274
Profit/(loss) for the period/year		**201**	(592)	(774)

	Note	HY2023 £m	HY2022 restated £m	FY2022 restated £m
Profit/(loss) for the financial period/year		**201**	(592)	(774)
Other comprehensive income:				
Items that are or may be reclassified to profit or loss		**—**	—	—
Cash flow hedges:				
Fair value gains/(losses) during the period/year	C.3	**7**	(3)	3
Total comprehensive income/(losses) for the period/year		**208**	(595)	(771)

All income and expenses are related to continuing operations.

Notes A–I form an integral part of these financial statements.

Condensed consolidated statement of financial position

FOR THE PERIOD ENDED 30 JUNE 2023

	Notes	HY2023 £m	HY2022 restated £m	FY2022 restated £m
Assets				
Property, plant and equipment	D.1	**22**	15	18
Deferred tax asset	G.1	**666**	613	702
Lease – right of use asset		**25**	29	27
Financial investments	D.2	**95,006**	81,489	90,928
Reinsurance contract assets	E.2	**73**	23	54
Accrued interest and prepayments		**700**	603	806
Receivables		**1,667**	1,252	2,229
Cash and cash equivalents		**187**	459	243
Total assets		**98,346**	84,483	95,007
Equity and liabilities				
Equity				
Share capital	C.1	**510**	510	510
Tier 1 notes	C.2	**793**	793	793
Share premium	C.3	**—**	1,953	—
Hedging reserve	C.3	**11**	(2)	4
Retained earnings	C.3	**3,018**	1,083	2,835
Total equity		**4,332**	4,337	4,142
Liabilities				
Insurance contract liabilities	E.1	**41,345**	45,361	40,993
Reinsurance contract liabilities	E.2	**849**	1,052	848
Payables and financial investment liabilities	D.3	**49,399**	31,851	47,126
Leasehold liabilities		**37**	41	39
Borrowings	D.4	**2,246**	1,759	1,764
Accruals		**138**	82	95
Total liabilities		**94,014**	80,146	90,865
Total equity and liabilities		**98,346**	84,483	95,007

Notes A–I form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 11 August 2023 and signed on its behalf by:

Tom Pearce
Chief Executive Officer
11 August 2023
Company number 06127279

Condensed consolidated statement of changes in equity

FOR THE PERIOD ENDED 30 JUNE 2023

		Share capital £m	Tier 1 notes £m	Hedging reserve £m	Profit and loss reserve £m	Total equity £m
Restated balances as at 1 January 2023		**510**	**793**	**4**	**2,835**	**4,142**
Other comprehensive income for the year		**—**	**—**	**7**	**—**	**7**
Tier 1 note coupon	C.2, C.3	**—**	**—**	**—**	**(23)**	**(23)**
Tier 1 coupon tax relief	C.2, C.3	**—**	**—**	**—**	**5**	**5**
Profit for the period	C.3	**—**	**—**	**—**	**201**	**201**
As at 30 June 2023		**510**	**793**	**11**	**3,018**	**4,332**

FOR THE PERIOD ENDED 30 JUNE 2022	Notes	Share capital £m	Share premium £m	Tier 1 notes £m	Hedging reserve £m	Profit and loss reserve £m	Total equity £m
As at 1 January 2022, as previously reported		510	1,953	793	1	2,882	6,139
IFRS 17 transitional adjustment, net of tax	C.3	—	—	—	—	(1,199)	(1,199)
Restated balances as at 1 January 2022		510	1,953	793	1	1,683	4,940
Other comprehensive income for the year		—	—	—	(3)	—	(3)
Tier 1 note coupon	C.2, C.3	—	—	—	—	(10)	(10)
Tier 1 coupon tax relief	C.2, C.3	—	—	—	—	2	2
Loss for the financial period	C.3	—	—	—	—	(592)	(592)
Restated balances as at 30 June 2022		510	1,953	793	(2)	1,083	4,337

FOR THE PERIOD ENDED 31 DECEMBER 2022	Notes	Share capital £m	Share premium £m	Tier 1 notes £m	Hedging reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2022, as previously reported		510	1,953	793	1	2,882	6,139
IFRS 17 transitional adjustment, net of tax		—	—	—	—	(1,199)	(1,199)
Restated balances as at 1 January 2022		510	1,953	793	1	1,683	4,940
Other comprehensive income for the year		—	—	—	3	—	3
Capital reorganisation	C.3	—	(1,953)	—	—	1,953	—
Tier 1 note coupon	C.2, C.3	—	—	—	—	(34)	(34)
Tier 1 coupon tax relief	C.2, C.3	—	—	—	—	7	7
Loss for the financial year	C.3	—	—	—	—	(774)	(774)
Restated balances as at 31 December 2022		510	—	793	4	2,835	4,142

Condensed consolidated cash flow statement

FOR THE PERIOD ENDED 30 JUNE 2023

	Notes	HY2023 £m	HY2022 restated £m	FY2022 restated £m
Cash flows from operating activities				
Profit/(loss) for the period/year		**201**	(592)	(774)
Adjustments for non-cash movements in net profit for the financial period/year				
FX on USD borrowings		**(19)**	32	35
Depreciation	D.1	**1**	1	2
Leasehold depreciation		**1**	2	3
Amortisation of debt costs		**2**	2	4
Financing charge on leasehold		**1**	1	1
Interest income	B.2	**(1,091)**	(796)	(1,788)
Interest expense	B.4	**243**	54	189
Income tax expense	B.5	**28**	214	38
Hedging reserve	C.3	**7**	(3)	3
Net (increase)/decrease in operational assets				
Financial investments	D.2	**(4,078)**	2,356	(7,083)
Deferred tax	G.1	**35**	(221)	(312)
Reinsurance asset	E.2	**(20)**	18	(9)
Receivables		**541**	(725)	(1,687)
Prepayment		**45**	16	(24)
Net increase/(decrease) in operational liabilities				
Insurance contract liabilities	E.1	**352**	(9,870)	(14,255)
Reinsurance liabilities	E.2	**1**	52	(138)
Financial investment liabilities	D.3	**2,574**	7,164	20,635
Other payables	D.3	**(300)**	1,711	3,714
Accruals		**(7)**	(10)	—
Net cash flows used in operating activities		**(1,483)**	(594)	(1,446)
Interest paid		**(192)**	(30)	(163)
Interest received		**1,152**	816	1,648
Tax paid		**—**	(49)	(81)
Net cash flows (used in)/generated from operating activities		**(523)**	143	(42)
Cash flows generated from/(used in) financing activities				
Interest payment on Tier 1 notes	C.3	**(23)**	(10)	(34)
Cash flow on leasehold		**(3)**	(1)	(4)
Proceeds from issuance of debt (net of issuance costs)	D.4	**498**	—	—
Net cash flows generated from/(used in) financing activities		**472**	(11)	(38)
Net cash outflows used in investing activities				
Acquisition of property, plant and equipment	D.1	**(5)**	(5)	(9)
Net cash outflows used in investing activities		**(5)**	(5)	(9)
Net (decrease)/increase in cash and cash equivalents		**(56)**	127	(89)
Cash and cash equivalents at 1 January		**243**	332	332
Cash and cash equivalents at 30 June/31 December		**187**	459	243

Notes to the financial statements

Note A — Significant accounting policies

A.1 Basis of preparation and consolidation

The interim condensed consolidated financial statements of Rothesay for the six-month period ended 30 June 2023 have been prepared and approved by the Directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and UK-adopted International Accounting Standards. The accounts have been prepared in accordance with IAS 34, 'Interim Financial Reporting'.

These condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. These financial statements have been reviewed, not audited. Statutory accounts for the year ended 31 December 2022 were approved by the Board of Directors on 10 February 2023 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006. The year ended 31 December 2022 numbers have been restated due to the adoption of new IFRS standards (please see the Application of IFRS 17 and IFRS 9 section). The six-month period ended 30 June 2022 has been taken from the Group's interim results for the six month to 30 June 2022 and restated due to the adoption of the new IFRS standard.

The interim condensed consolidated financial statements do not include all of the notes included in the annual financial report. Accordingly, this report should be read in conjunction with the annual report and accounts for the year ended 31 December 2022, which have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and UK-adopted International Accounting Standards.

This is the first set of Rothesay's financial statements in which IFRS 9, 'Financial Instruments', and IFRS 17, 'Insurance Contracts', have been applied. The related changes to significant accounting policies are described in note A.3.

During the preparation of the interim condensed 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. Matters of significant judgement are considered to be:

- 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.3).
- 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(f)).
- The method used to measure the coverage units for both immediate and deferred annuities provided under insurance contracts (see note E.6).

Notes to the financial statements continued

Note A — Significant accounting policies (continued)

A.1 Basis of preparation and consolidation (continued)

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.2).
- Estimates and assumptions made in measuring insurance and reinsurance contracts including:
  - Determination of the fair value, including the discount rates used, of the group of insurance and reinsurance contracts that adopt the fair value approach at transition (see note A.3);
  - The determination of discount rates (see note E.7(b));
  - Estimates of future cash flows within the boundary of insurance contracts (see note E.7); and
  - Demographic assumptions (with mortality assumptions being the most material) used in measuring the fulfilment cash flows (see note E.7 (a,c,d,e)).

The Directors have considered the appropriateness of adopting the going concern basis for the preparation of the interim 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 interim condensed consolidated financial statements of Rothesay are presented in sterling (£) rounded to the nearest million (£m) except where otherwise stated.

Rothesay presents its interim condensed consolidated statement of financial position broadly in order of liquidity.

Assets and liabilities are offset and the net amount reported in the condensed consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the interim condensed consolidated income statement unless required or permitted by IFRS.

There is no seasonality or cyclicity in Rothesay’s business operations.

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.

Notes to the financial statements continued

Note A — Significant accounting policies (continued)

A.2 Contract classification

The adoption of IFRS 17 has not changed the classification of Rothesay's contracts.

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 are classified as insurance contracts. Rothesay has classified its policyholder contracts as insurance contracts based on a contract-by-contract assessment of substantive rights and obligations. Rothesay uses judgement to assess whether a contract transfers significant insurance risk and whether the transferred insurance risk is significant by considering scenarios with commercial substance in which Rothesay has the possibility of a significant loss. For Rothesay, the most material such risk is longevity risk, i.e. the risk that the policyholder lives for longer than expected. 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.

Lifetime mortgages are not considered to be insurance contracts and have been classified as financial investments in accordance with IFRS 9.

A.3 Accounting policies and changes in accounting policies

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.

Notes to the financial statements continued

Note A — Significant accounting policies (continued)
A.3 Accounting policies and changes in accounting policies (continued)

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 retrospectively 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.

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, we calculated the CSM on the date the business was written, as if IFRS 17 had always been applied. The CSM is then 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. 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.

Notes to the financial statements continued

Note A — Significant accounting policies (continued)

A.3 Accounting policies and changes in accounting policies (continued)

	1 January 2022 £m	30 June 2022 £m	31 December 2022 £m
Group equity, as previously reported under IFRS 4	**6,140**	6,204	6,261
IFRS 17 transition adjustments:			
Remeasurement of liabilities	**3,319**	2,167	1,980
Creation of CSM	**(4,291)**	(4,297)	(4,461)
Creation of Risk Adjustment	**(624)**	(355)	(339)
Deferred tax adjustment	**396**	618	701
Group equity, as restated under IFRS 17	**4,940**	4,337	4,142

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. 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 assets 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.

Prior to transition to IFRS 9, Rothesay's financial investments were already fair valued under IAS 39 and there was no re-measurement and re-designation 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.

Notes to the financial statements continued

Note A — Significant accounting policies (continued)
A.3 Accounting policies and changes in accounting policies (continued)

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 30 June 2023, 30 June 2022 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 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. As noted previously, 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 in the period (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 period.*
- *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 period represents the coverage units released based on the quantity of services provided to the policyholder in the period. 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 period 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 in the period.*
- *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 in the period.*
- *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 in the period is shown in the following tables. Note that Rothesay has not written any onerous insurance contracts nor have any insurance contracts that become onerous in the period. Consequently, Rothesay has not recognised any losses from onerous insurance contracts in the profit or loss.

	HY2023 £m	HY2022 £m	FY2022 £m
Insurance revenue			
Amounts relating to the change in liabilities for remaining coverage:			
– Expected insurance service expense incurred in the period	**1,283**	1,210	2,510
– Change in the risk adjustment for non-financial risk	**4**	7	24
– CSM recognised in profit or loss for the services provided in the period	**191**	151	333
Allocation of the portion of premiums that relate to the recovery of insurance acquisition cash flows	**14**	11	23
Total insurance revenue	**1,492**	1,379	2,890
Insurance service expense			
Incurred claims and other incurred insurance service expenses	**(1,281)**	(1,209)	(2,506)
Adjustment to liabilities for incurred claims	**8**	5	(1)
Amortisation of insurance acquisition cash flows	**(14)**	(11)	(23)
Total insurance service expense	**(1,287)**	(1,215)	(2,530)
Insurance service result before reinsurance contracts held	**205**	164	360
Net (recovery)/expense from reinsurance contracts held			
Amounts relating to the change in liabilities for remaining coverage:			
– Expected recovery for insurance service expenses incurred in the period	**(1,037)**	(1,009)	(2,050)
– Change in the risk adjustment for non-financial risk	**—**	—	(5)
– Net cost recognised in profit or loss for the services received	**(19)**	(6)	(25)
– Amounts relating to recovery in insurance acquisition cash flows	**1**	1	2
Total allocation of reinsurance premiums paid	**(1,055)**	(1,014)	(2,078)
Amounts recoverable for claims and other expenses incurred in the period	**1,035**	1,009	2,051
Amounts relating to recovery in insurance acquisition cash flows	**(1)**	(1)	(2)
Amounts recoverable from reinsurers	**1,034**	1,008	2,049
Total net expense from reinsurance contracts held	**(21)**	(6)	(29)
Total insurance service result	**184**	158	331

Notes to the financial statements continued

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 in the period. 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.

	HY2023 £m	HY2022 £m	FY2022 £m
Interest income on financial investments at FVTPL	**1,091**	796	1,788
Unrealised losses on financial investments at FVTPL	**(1,051)**	(9,582)	(13,989)
Realised gains/(losses) on financial investments at FVTPL	**298**	(1,282)	(3,100)
Investment management expenses	**(33)**	(38)	(75)
Total investment return/(loss)	**305**	(10,106)	(15,376)
Finance expense from insurance contracts issued			
Interest accreted to insurance contracts using current financial assumptions on fulfilment cash flows	**(874)**	(328)	(880)
Interest accreted to insurance contracts using locked-in rate on the CSM	**(54)**	(36)	(77)
Effects of changes in interest rates and other financial assumptions	**1,033**	9,727	15,147
Total finance income from insurance contracts issued	**105**	9,363	14,190
Finance expense from reinsurance contracts held			
Interest accreted to reinsurance contracts using current financial assumptions on fulfilment cash flows	**(82)**	(8)	(22)
Interest accreted to reinsurance contracts using locked-in rate on the CSM	**4**	1	3
Effects of changes in interest rates and other financial assumptions	**38**	(141)	62
Effect of changes in non-performance risk of reinsurers	**—**	—	1
Total finance (expense)/income from reinsurance contracts held	**(40)**	(148)	44
Total net insurance finance income	**65**	9,215	14,234
Represented by:			
Amounts recognised in profit or loss	**370**	(891)	(1,142)
Amounts recognised in other comprehensive income	**—**	—	—

Notes to the financial statements continued

Note B — Income statement notes (continued)

B.2 Investment return and net insurance finance income/(expense) (continued)

Given the approach to interest rate hedging, Rothesay is effectively over-hedged on an IFRS 17 basis. As a result, the large increase in long-term interest rates in 2022 led to larger realised and unrealised losses on financial investments in 2022 than the corresponding reduction in net insurance liabilities. For 2023, this effect was more than offset by credit spread tightening and other changes in economic conditions.

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. Note that expenses for 2022 have been restated to be consistent with IFRS 17.

	HY2023 £m	HY2022 restated £m	FY2022 restated £m
Attributable acquisition costs	**66**	56	119
Fulfilment cash flows	**31**	34	67
Non-attributable costs	**46**	8	43
Expenses	**143**	98	229

Non-attributable costs (shown as operating expenses in the statement of comprehensive income) can be broken down between reinsurance fees and other non-attributable costs. Reinsurance fees can be positive or negative as this amount represents the change in provisions relating to such fees.

	HY2023 £m	HY2022 restated £m	FY2022 restated £m
Reinsurance fees	**(3)**	(5)	(8)
Other non-attributable costs	**49**	13	51
Operating expenses	**46**	8	43

An insurance acquisition asset was established in 2022. The table below shows the movement in the value of that asset.

	HY2023 £m	HY2022 restated £m	FY2022 restated £m
Opening insurance acquisition asset	**40**	—	—
Acquisition cash flows during the period/year	**66**	56	119
Amounts derecognised and included in the measurement of insurance contracts	**(24)**	(23)	(79)
Closing insurance acquisition asset	**82**	33	40

Notes to the financial statements continued

Note B — Income statement notes (continued) *B.4 Finance costs*

Finance costs consist of finance costs and interest payable on financial liabilities. Finance costs are accounted for on an accruals basis.

	HY2023 £m	HY2022 £m	FY2022 £m
Interest payable on collateral	**131**	4	61
Interest payable on collateralised agreements and financing	**62**	5	38
Total interest payable on collateral and collateralised agreements	**193**	9	99
Interest payable on borrowings from related parties	**9**	9	18
Interest payable on third party borrowings	**42**	38	76
Financing charge on leasehold liability	**1**	1	1
Total borrowing costs	**52**	48	95
Net finance costs	**245**	57	194

Debt issuance expenses associated with the issue of subordinated loans are recognised over the term of the loan within interest payable.

B.5 Income tax

The major components of income tax expense/(credit) for the periods ended 30 June 2023, 30 June 2022 and the financial year ended 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 & loss. The other components for HY2022 and FY2022 are unchanged.

	HY2023 £m	HY2022 restated £m	FY2022 restated £m
Current income tax:			
UK corporation tax	**28**	15	37
Prior year adjustment	**—**	1	1
Total current income tax	**28**	16	38
Deferred tax:			
Deferred tax on current period losses carried forward arising from restatement of IFRS 17 Profit & Loss	**—**	(222)	(304)
Origination and reversal of temporary differences	**34**	—	(8)
Total deferred tax	**34**	(222)	(312)
Total tax in the interim condensed consolidated statement of comprehensive income	**62**	(206)	(274)

Notes to the financial statements continued

Note B — Income statement notes (continued)

B.5 Income tax (continued)

The tax expense/(credit) in the interim condensed consolidated statement of comprehensive income for the financial period and the standard rate of corporation tax in the UK of 23.52% (HY2022: 19%, FY2022: 19%) is reconciled below:

	HY2023 £m	HY2022 restated £m	FY2022 restated £m
Profit/(loss) on ordinary activities before taxation	**263**	(798)	(1,048)
Tax calculated at UK standard rate of corporation tax of 23.52% (2022: 19%)	**62**	(152)	(199)
Prior year adjustments	**—**	1	1
Rate difference due IFRS 17 transitional at 24.85% blended rate	**—**	(52)	(72)
Other adjustments	**—**	(198)	(339)
Disallowable expenditure	**—**	198	337
Group relief surrendered for nil consideration	**—**	(3)	(2)
Total tax reported in the condensed consolidated statement of comprehensive income	**62**	(206)	(274)

Notes to the financial statements continued

Note C — Equity

C.1 Share capital

At 30 June 2023, 30 June 2022 and 31 December 2022, share capital comprised:

	HY2023		HY2022		FY2022	
	No.	£m	No.	£m	No.	£m
Authorised share capital (ordinary shares of £1 each)	**510,528,697**	**510**	510,528,697	510	510,528,697	510

All of the shares in issuance are A ordinary shares.

No changes have been made to equity share capital in the first half of 2023 or in 2022.

C.2 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	HY2023 £m	HY2022 £m	FY2022 £m
Loan notes issued through public debt markets						
£350m	12 September 2018	12 September 2028	6.875%	**347**	347	347
£450m	13 October 2021	13 October 2031	5%	**446**	446	446
				793	793	793

Rothesay has the option to cancel the coupon payment on all RT1 notes which becomes mandatory 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;
ii. eligible Own Fund items are less than or equal to 100% of the MCR; or
iii. 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.3 Share premium account and reserves

	Share premium £m	Hedging reserve £m	Profit and loss reserve £m
1 January 2023	**—**	**4**	**2,835**
Other comprehensive income for the year	**—**	**7**	**—**
Tier 1 note coupon	**—**	**—**	**(23)**
Tier 1 coupon tax relief	**—**	**—**	**5**
Profit for the financial period	**—**	**—**	**201**
30 June 2023	**—**	**11**	**3,018**

	Share premium £m	Hedging reserve £m	Profit and loss reserve £m
Balances as at 1 January 2022, as previously reported	1,953	1	2,882
Adjustment on initial application of IFRS 17, net of tax	—	—	(1,199)
Restated balances as at 1 January 2022	1,953	1	1,683
Loss for the financial period	—	—	(592)
Tier 1 note coupon	—	—	(10)
Tier 1 coupon tax relief	—	—	2
Other comprehensive income for the year	—	(3)	—
Restated balance as at 30 June 2022	1,953	(2)	1,083

	Share premium £m	Hedging reserve £m	Profit and loss reserve £m
Balances as at 1 January 2022, as previously reported	1,953	1	2,882
Adjustment on initial application of IFRS 17, net of tax	—	—	(1,199)
Restated balances as at 1 January 2022	1,953	1	1,683
Loss for the financial year	—	—	(774)
Tier 1 note coupon	—	—	(34)
Tier 1 coupon tax relief	—	—	7
Capital reorganisation	(1,953)	—	1,953
Other comprehensive income for the year	—	3	—
Restated balance as at 31 December 2022	—	4	2,835

We have calculated the IFRS 17 transitional impact, after allowing for a deferred tax asset of £0.7bn, 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, and 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 £1,953m 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.

Notes to the financial statements **continued**

Note C — Equity (continued)

C.3 Share premium account and reserves (continued)

Hedging reserve

A foreign currency exposure arises on the RT1 notes issued in USD and the associated coupon payments (see note D.4). 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 £38m as at 30 June 2023 (HY2022: £37m, FY2022: £48m) which is not material in the context of Rothesay's total derivative position.

C.4 Dividends on ordinary shares

The Directors have recommended no payment of interim dividends during the period ended 30 June 2023 (HY2022: £nil; FY2022: £nil). The Directors have recommended no final ordinary dividend in respect of the year ended 31 December 2022. The Board approved the payment of an interim dividend on 6 July 2023, the size of the payment is £351m (see note I.3).

Notes to the financial statements continued

Note D — Financial assets and liabilities

D.1 Property, plant and equipment

	Software £m	Computer equipment £m	Furniture and fittings £m	Total £m
Cost				
As at 1 January 2023	13	—	10	23
Additions	5	—	—	5
As at 30 June 2023	18	—	10	28
Accumulated depreciation				
As at 1 January 2023	—	—	(5)	(5)
Charge for the year	—	—	(1)	(1)
As at 30 June 2023	—	—	(6)	(6)
Net book value				
As at 30 June 2023	18	—	4	22
As at 31 December 2022	13	—	5	18

The software asset capitalised relates to assets which remain under development.

Notes to the financial statements continued

Note D — Financial assets and liabilities (continued)

D.2 Financial investments

Rothesay's financial investments are grouped in a single category:

	HY2023 £m	HY2022 £m	FY2022 £m
Financial investments carried at fair value through profit and loss, designated at initial recognition	**95,006**	81,489	90,928

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.

Notes to the financial statements continued

Note D — Financial assets and liabilities (continued)

D.2 Financial investments (continued)

The following tables show an analysis of financial investments recorded at fair value by level of the fair value hierarchy for HY2023, HY2022 and FY2022 (please refer to note D.3 for financial liabilities):

30 June 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Collective investment schemes	**5,468**	**—**	**—**	**5,468**
Government sub sovereign and agency obligations	**5,853**	**6,857**	**—**	**12,710**
Corporate bonds and other corporate debt	**—**	**23,486**	**785**	**24,271**
Derivative assets	**—**	**39,186**	**1,819**	**41,005**
Collateralised agreements and financing	**—**	**63**	**—**	**63**
Loans secured on property	**—**	**100**	**5,743**	**5,843**
Lifetime mortgages	**—**	**—**	**5,516**	**5,516**
Certificate of deposits	**—**	**130**	**—**	**130**
Total financial investments at fair value	**11,321**	**69,822**	**13,863**	**95,006**

30 June 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Collective investment schemes	3,506	—	—	3,506
Government sub sovereign and agency obligations	5,819	8,040	—	13,859
Corporate bonds and other corporate debt	—	24,918	776	25,694
Derivative assets	—	24,069	2,460	26,529
Collateralised agreements and financing	—	301	—	301
Loans secured on property	—	108	5,668	5,776
Lifetime mortgages	—	—	5,683	5,683
Certificates of deposit	—	141	—	141
Total financial investments at fair value	9,325	57,577	14,587	81,489

31 December 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Collective investment schemes	4,585	—	—	4,585
Government sub sovereign and agency obligations	5,139	6,919	—	12,058
Corporate bonds and other corporate debt	—	24,116	756	24,872
Derivative assets	—	35,993	1,817	37,810
Collateralised agreements and financing	—	430	—	430
Loans secured on property	—	111	5,846	5,957
Lifetime mortgages	—	—	5,086	5,086
Certificate of deposits	—	130	—	130
Total financial investments at fair value	9,724	67,699	13,505	90,928

Notes to the financial statements continued

Note D — Financial assets and liabilities (continued)

D.2 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 increased significantly in the period 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 fell by £118m in the first half of 2023 (HY2022: fell by £463m, FY2022: 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.

Notes to the financial statements continued

Note D — Financial assets and liabilities (continued)

D.2 Financial investments (continued)

Approximately 15% (HY2022: 18%, FY2022: 15%) of the total financial assets recorded at fair value are valued based on estimates 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 section of note D.2 below):

	Corporate bonds & other corporate debt £m	Loans secured on property £m	Derivative assets £m	Total £m
As at 1 January 2023	**756**	**5,846**	**1,817**	**8,419**
Total gains in the statement of comprehensive income:				
Unrealised (losses)/gains	**(53)**	**(149)**	**2**	**(200)**
Transfer into Level 3	**51**	**—**	**—**	**51**
Net purchases/addition	**31**	**46**	**—**	**77**
As at 30 June 2023	**785**	**5,743**	**1,819**	**8,347**
As at 1 January 2022	1,092	7,304	3,721	12,117
Total gains in the statement of comprehensive income:				
Unrealised losses	(90)	(1,564)	(1,261)	(2,915)
Realised gains	7	6	—	13
Net sales	(233)	(78)	—	(311)
As at 30 June 2022	776	5,668	2,460	8,904
As at 1 January 2022	1,092	7,304	3,721	12,117
Total gains in the statement of comprehensive income:				
Unrealised losses	(139)	(2,291)	(1,909)	(4,339)
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

Please see note D.3 for details of Level 3 derivative liabilities.

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. £51m of corporate debt was transferred from Level 2 to Level 3 during the first half of 2023 (HY2022: £nil, FY2022: £36m). No corporate debt was transferred from Level 3 to Level 2 during the first half of 2023 (HY2022: £nil, FY2022: £nil).

The unrealised losses on Level 3 financial investments were mainly driven by the increase in long-term interest rates. The loss observed in Level 3 derivative assets largely offsets with the gain from Level 3 derivative liabilities.

Notes to the financial statements continued

Note D — Financial assets and liabilities (continued)

D.2 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 2022 is dominated by the significant increase in interest rates but also includes changes in property prices.

	HY2023 £m	HY2022 £m	FY2022 £m
Carrying amount at 1 January	**5,086**	5,329	5,329
Increase in respect of new business	**400**	1,166	1,675
Redemptions/repayments	**(138)**	(138)	(310)
Accrued interest for the financial year	**147**	116	249
Change in economic assumptions	**21**	(790)	(1,859)
Change in demographic assumptions	**—**	—	2
Closing balance at end of the period/year	**5,516**	5,683	5,086

The table below provides a summary of the cash flows arising from the lifetime mortgage portfolio based on the above assumptions:

	HY2023 £m	HY2022 £m	FY2022 £m
Less than one year	**448**	381	414
One to five years	**1,259**	1,210	1,210
Over five years	**3,809**	4,092	3,462
Total	**5,516**	5,683	5,086

Notes to the financial statements continued

Note D — Financial assets and liabilities (continued)

D.2 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 reasonable 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.

			HY2023			
Impact on financial assets & liabilities, PBT and Equity	Main assumptions	Changes in assumptions	Current FV £m	(Decrease)/ Increase in FV £m	(Decrease)/ Increase in PBT £m	(Decrease)/ Increase in equity £m
Financial assets						
Corporate bonds and other corporate debt	Liquidity premium	+25bps/+50bps	**785**	**(15)**	**(2)**	**(1)**
		-25bps/-50bps	**785**	**15**	**2**	**1**
Loans secured on property	Liquidity premium	+25bps	**5,743**	**(134)**	**—**	**—**
		-25bps	**5,743**	**144**	**—**	**—**
Loans secured on property	Property prices	+10%	**5,743**	**15**	**3**	**2**
		-10%	**5,743**	**(19)**	**(12)**	**(9)**
Lifetime mortgages	Liquidity premium	+25bps	**5,516**	**(142)**	**—**	**—**
		-25bps	**5,516**	**148**	**—**	**—**
Lifetime mortgages	House prices	+10%	**5,516**	**52**	**38**	**29**
		-10%	**5,516**	**(70)**	**(53)**	**(41)**
Derivative assets	LPI bid-mid spread	+15bps	**1,819**	**15**	**15**	**11**
		-15bps	**1,819**	**(15)**	**(15)**	**(11)**
Financial liabilities						
Derivative liabilities	LPI bid-mid spread	+15bps	**1,785**	**75**	**75**	**57**
		-15bps	**1,785**	**(75)**	**(75)**	**(57)**
Collateralised financing agreements	Liquidity premium	+25bps	**112**	**5**	**5**	**4**
		-25bps	**112**	**(5)**	**(5)**	**(4)**

Note that the tables of comparatives below have been restated to show the impact on profit before tax and equity under IFRS 17.

Notes to the financial statements continued

Note D — Financial assets and liabilities (continued)
D.2 Financial investments (continued)
Sensitivity of Level 3 financial investments measured at fair value to changes in key assumptions (continued)

			HY2022			
Impact on financial assets & liabilities, PBT and Equity	Main assumptions	Changes in assumptions	Current FV £m	(Decrease)/ Increase in FV £m	(Decrease)/ Increase in PBT £m	Restated (Decrease)/ Increase in equity £m
Financial assets						
Corporate bonds and other corporate debt	Liquidity premium	+25bps	776	(11)	(2)	(1)
		-25bps	776	11	1	1
Loans secured on property	Liquidity premium	+25bps	5,668	(207)	—	—
		-25bps	5,668	224	—	—
Loans secured on property	Property prices	+10%	5,668	11	4	3
		-10%	5,668	(15)	(9)	(7)
Lifetime mortgages	Liquidity premium	+25bps	5,683	(155)	—	—
		-25bps	5,683	162	—	—
Lifetime mortgages	House prices	+10%	5,683	68	50	41
		-10%	5,683	(90)	(68)	(55)
Derivative assets	LPI bid-mid spread	+15bps	2,460	2	2	2
		-15bps	2,460	(2)	(2)	(2)
Financial liabilities						
Derivative liabilities	LPI bid-mid spread	+15bps	2,707	117	117	94
		-15bps	2,707	(117)	(117)	(94)
Collateralised financing agreements	Liquidity premium	+25bps	146	8	8	7
		-25bps	146	(8)	(8)	(7)

Notes to the financial statements continued

Note D — Financial assets and liabilities (continued)

D.2 Financial investments (continued)

Sensitivity of Level 3 financial investments measured at fair value to changes in key assumptions (continued)

Impact on financial assets & liabilities, PBT and Equity	Main assumptions	Changes in assumptions	FY2022 Current FV £m	FY2022 (Decrease)/ Increase in FV £m	FY2022 Restated (Decrease)/ Increase in PBT £m	FY2022 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	+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.3 Payables and financial liabilities

	HY2023 £m	HY2022 £m	FY2022 £m
Derivative financial instruments	**41,112**	26,911	37,799
Government, sub sovereign and agency obligations	**33**	18	310
Collateralised financing agreements	**3,166**	1,337	3,628
Total financial investment liabilities	**44,311**	28,266	41,737
Deposits received as collateral from third parties	**4,901**	3,340	5,234
Amounts due to Group undertakings	**97**	67	108
Current tax payable	**—**	—	—
Other payables	**90**	178	47
Total payables	**5,088**	3,585	5,389
Total payables and financial investment liabilities	**49,399**	31,851	47,126

Other payables include reinsurance fees and trade date adjustments.

Financial liabilities are recorded at fair value, of which, £1,897m are valued using Level 3 techniques (HY2022: £2,853m, FY2022: £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.

No financial liabilities were transferred from Level 2 to Level 3 in the first half of 2023 (HY2022: £nil, FY2022: £nil), and no financial liabilities were transferred from Level 3 to Level 2 (HY2022: £nil, FY2022: £2m). Level 3 financial liabilities have decreased in market value by £98m in the period as a result of changes in economic conditions (HY2022: £1,395m decrease, FY2022: £2,253m decrease).

The impact on the fair value of Level 3 financial liabilities of using reasonably possible alternative assumptions is included in note D.2.

Notes to the financial statements continued

Note D — Financial assets and liabilities (continued)

D.4 Borrowings

Rothesay's borrowings are as follows:

	HY2023 £m	HY2022 £m	FY2022 £m
Subordinated loans from related parties	**299**	299	299
Subordinated loan notes	**1,634**	1,133	1,135
US$400m contingent convertible RT1 notes	**313**	327	330
Total borrowed	**2,246**	1,759	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 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	HY2023 £m	HY2022 £m	FY2022 £m	HY2023 £m	HY2022 £m	FY2022 £m
Subordinated loans from related parties										
£300m	19 September 2017	19 September 2028	19 September 2023 and annually thereafter	6.05%	**299**	299	299	**297**	293	294
Subordinated loans										
£250m	30 October 2015	30 October 2025	No call option	8%	**250**	250	250	**249**	268	258
£500m	12 July 2019	12 July 2026	No call option	3.375%	**491**	488	490	**443**	464	450
£400m	17 September 2019	17 September 2029	17 September 2024	5.5%	**396**	395	395	**388**	401	390
$400m	27 October 2021	Perpetual	13 April 2027	4.875%	**313**	327	330	**233**	272	255
£500m	16 May 2023	16 May 2033	16 November 2023	7.734%	**497**	—	—	**481**	—	—

For the period ended 30 June 2023, an interest expense of £51m (HY2022: £48m, FY2022: £97m) was recognised in the interim condensed consolidated statement of comprehensive income in respect of these borrowings.

Notes to the financial statements continued

Note D — Financial assets and liabilities (continued)

D.4 Borrowings (continued)

Reconciliation of borrowings

The table below provides a reconciliation between opening and closing balances in the condensed consolidated statement of financial position for liabilities arising from financing activity:

	1 January 2023 £m	Cash flows £m	Non-cash flows £m	30 June 2023 £m
Subordinated loans from related parties	**299**	**—**	**—**	**299**
Subordinated loan notes	**1,135**	**498**	**1**	**1,634**
US$400m contingent convertible RT1 notes	**330**	**—**	**(17)**	**313**
Total borrowings	**1,764**	**498**	**(16)**	**2,246**

	1 January 2022 £m	Cash flows £m	Non-cash flows £m	30 June 2022 £m
Subordinated loans from related parties	299	—	—	299
Subordinated loan notes	1,131	—	2	1,133
US$400m contingent convertible RT1 notes	295	—	32	327
Total borrowings	1,725	—	34	1,759

	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

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.

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.

Notes to the financial statements continued

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 writing 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

The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises the future BEL and RA cash flows that relate to services to be delivered in future periods and any remaining CSM. The liability for incurred claims includes unpaid incurred claims and expenses.

Notes to the financial statements continued

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;
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. interest accretion using the locked-in discount rates;
ii. income recognised in profit or loss in the reporting period related to losses on initial recognition of underlying contracts;
iii. 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;
iv. adjustments to the extent that the changes are due to changes to future service, using locked-in economic conditions;
v. impact of any currency exchange differences; and
vi. 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. 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.

Notes to the financial statements continued

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.

HY2023	Liabilities for remaining coverage £m	Liabilities for incurred claims £m	Total £m
Insurance contract liabilities as at 1 January 2023	(40,971)	(22)	(40,993)
Insurance revenue	1,492	—	1,492
Contracts under fair value approach at transition	449	—	449
New contracts and contracts under full retrospective approach at transition	1,043	—	1,043
Insurance service expense	(14)	(1,273)	(1,287)
Incurred claims and other incurred insurance service expenses	—	(1,281)	(1,281)
Amortisation of insurance acquisition cash flows	(14)	—	(14)
Changes to liabilities for incurred claims	—	8	8
Investment components and premium refunds	170	(170)	—
Insurance service results	1,648	(1,443)	205
Insurance finance income	105	—	105
Total change in profit or loss	1,753	(1,443)	310
Cash flows			
Premiums received	(2,170)	—	(2,170)
Claims and other expenses paid	—	1,281	1,281
Investment components and premium refunds	—	170	170
Insurance acquisition cash flows	15	—	15
Insurance acquisition asset	42	—	42
Total cash flows	(2,113)	1,451	(662)
Insurance contract liabilities as at 30 June 2023	(41,331)	(14)	(41,345)

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)

HY2022	Liabilities for remaining coverage £m	Liabilities for incurred claims £m	Total £m
Insurance contract liabilities as at 1 January 2022	**(55,237)**	**(21)**	**(55,258)**
Insurance revenue	**1,379**	**—**	**1,379**
Contracts under fair value approach at transition	429	—	429
New contracts and contracts under full retrospective approach at transition	950	—	950
Insurance service expense	**(11)**	**(1,204)**	**(1,215)**
Incurred claims and other incurred insurance service expenses	—	(1,209)	(1,209)
Amortisation of insurance acquisition cash flows	(11)	—	(11)
Changes to liabilities for incurred claims	—	5	5
Investment components and premium refunds	**243**	**(243)**	**—**
Insurance service results	**1,611**	**(1,447)**	**164**
Insurance finance income	**9,363**	**—**	**9,363**
Total change in profit or loss	**10,974**	**(1,447)**	**9,527**
Cash flows			
Premiums received	(1,138)	—	(1,138)
Claims and other expenses paid	—	1,209	1,209
Investment components and premium refunds	—	243	243
Insurance acquisition cash flows	23	—	23
Insurance acquisition asset	33	—	33
Total cash flows	**(1,082)**	**1,452**	**370**
Insurance contract liabilities as at 30 June 2022	**(45,345)**	**(16)**	**(45,361)**

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)

FY2022	Liabilities for remaining coverage £m	Liabilities for incurred claims £m	Total £m
Insurance contract liabilities as at 1 January 2022	**(55,237)**	**(21)**	**(55,258)**
Insurance revenue	**2,890**	**—**	**2,890**
Contracts under fair value approach at transition	858	—	858
New contracts and contracts under full retrospective approach at transition	2,032	—	2,032
Insurance service expense	**(23)**	**(2,507)**	**(2,530)**
Incurred claims and other incurred insurance service expenses	—	(2,506)	(2,506)
Amortisation of insurance acquisition cash flows	(23)	—	(23)
Changes to liabilities for incurred claims	—	(1)	(1)
Investment components and premium refunds	**474**	**(474)**	**—**
Insurance service results	**3,341**	**(2,981)**	**360**
Insurance finance income	**14,190**	**—**	**14,190**
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	—	2,506	2,506
Investment components and premium refunds	—	474	474
Insurance acquisition cash flows	79	—	79
Insurance acquisition asset	40	—	40
Total cash flows	**(3,265)**	**2,980**	**(285)**
Insurance contract liabilities as at 31 December 2022	**(40,971)**	**(22)**	**(40,993)**

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

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:

HY2023	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	(1,055)	—	(1,055)
Amounts relating to the changes in the liabilities for remaining coverage	(1,056)	—	(1,056)
Amortisation of reinsurance acquisition cash flows	1	—	1
Amounts recoverable from reinsurers	(1)	1,035	1,034
Amounts recoverable for claims and other expenses incurred in the period	—	1,035	1,035
Amortisation of reinsurance acquisition cash flows	(1)	—	(1)
Net expense from reinsurance contracts held	(1,056)	1,035	(21)
Reinsurance finance expense	(40)	—	(40)
Total change in profit or loss	(1,096)	1,035	(61)
Cash flows			
Premiums paid	1,104	—	1,104
Amounts received	—	(1,035)	(1,035)
Acquisition cash flows	10	—	10
Total cash flows	1,114	(1,035)	79
Net reinsurance contract liabilities as at 30 June 2023	(776)	—	(776)
Reinsurance contract liabilities as at 30 June 2023	(849)	—	(849)
Reinsurance contract assets as at 30 June 2023	73	—	73

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)

HY2022	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	**(1,014)**	—	**(1,014)**
Amounts relating to the changes in the liabilities for remaining coverage	(1,015)	—	(1,015)
Amortisation of reinsurance acquisition cash flows	1	—	1
Amounts recoverable from reinsurers	**(1)**	**1,009**	**1,008**
Amounts recoverable for claims and other expenses incurred in the period	—	1,009	1,009
Amortisation of reinsurance acquisition cash flows	(1)	—	(1)
Net expense from reinsurance contracts held	**(1,015)**	**1,009**	**(6)**
Reinsurance finance expense	**(148)**	**—**	**(148)**
Total change in profit or loss	**(1,163)**	**1,009**	**(154)**
Cash flows			
Premiums paid	1,067	—	1,067
Amounts received	—	(1,009)	(1,009)
Acquisition cash flows	—	—	—
Total cash flows	**1,067**	**(1,009)**	**58**
Net reinsurance contract liabilities as at 30 June 2022	**(1,029)**	**—**	**(1,029)**
Reinsurance contract liabilities as at 30 June 2022	(1,052)	—	(1,052)
Reinsurance contract assets as at 30 June 2022	23	—	23

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)

FY2022	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	**(2,078)**	**—**	**(2,078)**
Amounts relating to the changes in the liabilities for remaining coverage	(2,080)	—	(2,080)
Amortisation of reinsurance acquisition cash flows	2	—	2
Amounts recoverable from reinsurers	**(2)**	**2,051**	**2,049**
Amounts recoverable for claims and other expenses incurred in the period	—	2,051	2,051
Amortisation of reinsurance acquisition cash flows	(2)	—	(2)
Net expense from reinsurance contracts held	**(2,080)**	**2,051**	**(29)**
Reinsurance finance income	**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)
Acquisition cashflows	—	—	—
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 30 June 2023, 30 June 2022 and 31 December 2022, Rothesay conducted an impairment review of the reinsurance assets and found no impairment necessary.

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

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 in the period.

			Contractual service margin		
HY2023	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	**(34,543)**	**(1,512)**	**(773)**	**(4,165)**	**(40,993)**
Changes that relate to current services					
CSM recognised for services provided in the period	—	—	31	160	191
Change in risk adjustment for the risk expired	—	4	—	—	4
Experience adjustments relating to insurance service expenses	2	—	—	—	2
Changes that relate to future services					
Contracts initially recognised in the period	163	(97)	—	(66)	—
Changes in estimates that adjust the CSM	81	(24)	(8)	(49)	—
Changes that relate to past service					
Adjustment to liabilities for incurred claims	8	—	—	—	8
Insurance service results	254	(117)	23	45	205
Insurance finance expenses	84	75	(9)	(45)	105
Total changes in profit or loss	338	(42)	14	—	310
Cash flows					
Premiums received	(2,170)	—	—	—	(2,170)
Claims and other expenses paid	1,281	—	—	—	1,281
Investment components and premium refunds	170	—	—	—	170
Insurance acquisition cash flows	15	—	—	—	15
Insurance acquisition asset	42	—	—	—	42
Total cash flows	(662)	—	—	—	(662)
Insurance contract liabilities as at 30 June 2023	(34,867)	(1,554)	(759)	(4,165)	(41,345)

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)

HY2022	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	**(48,049)**	**(2,914)**	**(671)**	**(3,624)**	**(55,258)**
Changes that relate to current services					
CSM recognised for services provided in the period	—	—	25	126	151
Change in risk adjustment for the risk expired	—	7	—	—	7
Experience adjustments relating to insurance service expenses	1	—	—	—	1
Changes that relate to future services					—
Contracts initially recognised in the period	147	(48)	—	(99)	—
Changes in estimates that adjust the CSM	8	1	(1)	(8)	—
Changes that relate to past service					—
Adjustment to liabilities for incurred claims	5	—	—	—	5
Insurance service results	**161**	**(40)**	**24**	**19**	**164**
Insurance finance expenses	**8,425**	**974**	**(4)**	**(32)**	**9,363**
Total changes in profit or loss	**8,586**	**934**	**20**	**(13)**	**9,527**
Cash flows					
Premiums received	(1,138)	—	—	—	(1,138)
Claims and other expenses paid	1,209	—	—	—	1,209
Investment components and premium refunds	243	—	—	—	243
Insurance acquisition cash flows	23	—	—	—	23
Insurance acquisition asset	33	—	—	—	33
Total cash flows	**370**	**—**	**—**	**—**	**370**
Insurance contract liabilities as at 30 June 2022	**(39,093)**	**(1,980)**	**(651)**	**(3,637)**	**(45,361)**

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)

			Contractual service margin		
FY2022	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 2022	**(48,049)**	**(2,914)**	**(671)**	**(3,624)**	**(55,258)**
Changes that relate to current services					
CSM recognised for services provided in the period	—	—	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 in the period	486	(144)	—	(342)	—
Changes in estimates that adjust the CSM	399	158	(147)	(410)	—
Changes that relate to past service					—
Adjustment to liabilities for incurred claims	(1)	—	—	—	(1)
Insurance service results	**888**	**38**	**(91)**	**(475)**	**360**
Insurance finance expenses	**12,903**	**1,364**	**(11)**	**(66)**	**14,190**
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	2,506	—	—	—	2,506
Investment components and premium refunds	474	—	—	—	474
Insurance acquisition cash flows	79	—	—	—	79
Insurance acquisition asset	40	—	—	—	40
Total cash flows	**(285)**	**—**	**—**	**—**	**(285)**
Insurance contract liabilities as at 31 December 2022	**(34,543)**	**(1,512)**	**(773)**	**(4,165)**	**(40,993)**

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

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 in the period.

			Contractual service margin		
HY2023	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 in the period	—	—	(4)	(15)	(19)
Change in risk adjustment for the risk expired	—	—	—	—	—
Experience adjustments relating to incurred claims and other directly attributable expenses recovery	(2)	—	—	—	(2)
Changes that relate to future services					
Contracts initially recognised in the period	(23)	109	—	(86)	—
Changes in estimates that adjust the CSM	3	(5)	(15)	17	—
Net expense from reinsurance contracts held	(22)	104	(19)	(84)	(21)
Reinsurance finance income/(expenses)	41	(85)	1	3	(40)
Total changes in profit or loss	19	19	(18)	(81)	(61)
Cash flows					
Premiums paid	1,104	—	—	—	1,104
Amounts received	(1,035)	—	—	—	(1,035)
Acquisition cash flows	10	—	—	—	10
Total cash flows	79	—	—	—	79
Net reinsurance contract liabilities as at 30 June 2023	(2,346)	1,192	143	235	(776)
Reinsurance contract liabilities as at 30 June 2023	(2,096)	977	143	127	(849)
Reinsurance contract assets as at 30 June 2023	(250)	215	—	108	73

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		
HY2022	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 in the period	—	—	(2)	(4)	(6)
Change in risk adjustment for the risk expired	—	—	—	—	—
Experience adjustments relating to incurred claims and other directly attributable expenses recovery	—	—	—	—	—
Changes that relate to future services					
Contracts initially recognised in the period	(65)	71	—	(6)	—
Changes in estimates that adjust the CSM	3	(1)	2	(4)	—
Net expense from reinsurance contracts held	**(62)**	**70**	**—**	**(14)**	**(6)**
Reinsurance finance income/(expenses)	**587**	**(736)**	**—**	**1**	**(148)**
Total changes in profit or loss	**525**	**(666)**	**—**	**(13)**	**(154)**
Cash flows					
Premiums paid	1,067	—	—	—	1,067
Amounts received	(1,009)	—	—	—	(1,009)
Acquisition cash flows	—	—	—	—	—
Total cash flows	**58**	**—**	**—**	**—**	**58**
Net reinsurance contract liabilities as at 30 June 2022	**(2,645)**	**1,625**	**69**	**(78)**	**(1,029)**
Reinsurance contract liabilities as at 30 June 2022	(2,423)	1,519	69	(217)	(1,052)
Reinsurance contract assets as at 30 June 2022	(222)	106	—	139	23

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)

FY2022	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
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 in the period	—	—	(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 in the period	(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)**
Reinsurance finance income/(expenses)	**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)
Acquisition cash flows	—	—	—	—	—
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

Notes to the financial statements continued

Note E — Insurance contracts and reinsurance (continued)

E.5 Insurance contracts issued and reinsurance held initially recognised in the period

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 in the period 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		
	HY2023 £m	HY2022 £m	FY2022 £m
Estimates of present value of future cash inflows	**1,902**	984	3,295
Estimates of present value of future cash outflows, including estimates of acquisition cash flows	**(1,739)**	(837)	(2,809)
Risk adjustment for non-financial risk	**(97)**	(48)	(144)
CSM	**(66)**	(99)	(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 period 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 the first half of 2023 are 'Net cost'.

	New reinsurance contracts					
	HY2023		HY2022		FY2022	
	Net cost £m	Net gain £m	Net cost £m	Net gain £m	Net cost £m	Net gain £m
Estimates of present value of future cash outflows, including estimates of acquisition cash flows	**—**	**(1,650)**	(657)	(513)	(1,130)	(855)
Estimates of present value of future cash inflows	**—**	**1,627**	613	492	1,055	831
Risk adjustment for non-financial risk	**—**	**109**	41	30	71	47
CSM	**—**	**(86)**	3	(9)	4	(23)
Amount included in reinsurance contract assets for the period	**—**	**—**	—	—	—	—

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 in the period 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 in each period 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.

HY2023	0-5 years £m	6-10 years £m	More than 10 years £m	Total £m
Insurance contracts issued	**1,210**	**919**	**2,795**	**4,924**
Reinsurance contracts held	**(148)**	**(113)**	**(117)**	**(378)**
Net CSM release	**1,062**	**806**	**2,678**	**4,546**

HY2022	0-5 years £m	6-10 years £m	More than 10 years £m	Total £m
Insurance contracts issued	1,035	790	2,463	4,288
Reinsurance contracts held	(32)	(18)	59	9
Net CSM release	**1,003**	**772**	**2,522**	**4,297**

FY2022	0-5 years £m	6-10 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**

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

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 section 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 it 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:

	HY2023		HY2022		FY2022	
	Pensions originated	Insurance originated	Pensions originated	Insurance originated	Pensions originated	Insurance originated
Males	**105.7% S3PMA**	**102.1% S3PMA**	104.9% S3PMA	99.5% S3PMA	105.7% S3PMA	102.1% S3PMA
Females	**105.7% S3PFA**	**102.1% S3PFA**	104.9% S3PFA	99.5% 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 2022. The best estimate base mortality assumptions used in the valuation are based on this actual mortality experience. For 2022, mortality experience from 2020 and 2021 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 2022 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 2021 model with limited period smoothing and including 2020 and 2021 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 2022 mortality improvement assumptions were updated to reflect recent mortality improvements, including adoption of the CMI 2021 improvement model. The CMI 2021 model places no weight on 2020 or 2021 data, removing the impact of COVID-19 from 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 30 June 2023 remain consistent with those used as at 31 December 2022. The initial adjustment 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)		
	HY2023	HY2022	FY2022
Males	**CMI_2021*_M[1.7%; Sκ=7.5]**	CMI_2020*_M[1.7%; Sκ=7.5]	CMI_2021*_M[1.7%; Sκ=7.5]
Females	**CMI_2021*_F[1.7%; Sκ=7.5]**	CMI_2020*_F[1.7%; Sκ=7.5]	CMI_2021*_F[1.7%; Sκ=7.5]

* Calibration ages 20-90

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 backing insurance liabilities, such as sovereign and corporate bonds available on the markets.

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)
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 in the period. 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.

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.

	HY2023 bps	HY2022 bps	FY2022 bps
Risk-free rate	**401**	226	355
Spread above risk-free rate	**142**	141	154
Aggregate discount rate	**543**	367	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 2022 following an investigation into the total costs incurred by Rothesay during 2022 and projected 2023 expenses.

The insurance contract liabilities best estimate liabilities 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 £44 per policy per annum (HY2022: £38 per policy per annum, FY2022: £44 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) plus an addition at each duration of 0.25% p.a. for all expenses (HY2022: 0.25% p.a., FY2022: 0.25% p.a.).

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. Member option and dependants assumptions and provisions for data risk

A number of other, less financially significant actuarial assumptions are made in determining the best estimate liability provisions. These less significant assumptions include, inter alia, the proportion of deferred and immediate annuitants assumed to have a dependant eligible for contingent benefits, the dependant's age difference, the proportion of deferred annuitants opting to take a proportion or all of their benefit as a lump sum and the provision required to cover data risk.

The modelling of member options allows for the probability that deferred annuitants choose to transfer their benefits each year. The cash flow profile resulting from the assumed take-up of member options impacts the composition of the basket of assets used to derive the discount rate (see note E.7(b) on the previous page).

When deferred annuitants have passed the scheme's normal retirement date and have been subject to an in-depth tracing exercise and yet remain untraced, an appropriate allowance has been made for the probability of them taking their benefits in the future. All other individuals who have passed the scheme's normal retirement date are assumed to start receiving pension payments immediately.

As part of pension de-risking Rothesay sometimes provides insurance against residual data risk. Examples of such risks include the risk that there are beneficiaries of a pension scheme missing from the data, the risk that a policyholder's data is inaccurate or the risk that scheme rules have been inaccurately interpreted. Provisions are established following detailed due diligence.

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)

f. 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 are in line with the calibration of the underlying best estimate assumptions for these risk factors which is typically annually.

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, spouse/financial dependant risk and expense 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	HY2023	HY2022	FY2022
Confidence level – 1 year basis	**91%**	94%	92%
Confidence level – ultimate basis	**64%**	69%	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.

Notes to the financial statements continued

Note E — Insurance contracts and reinsurance (continued)

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.

Sensitivities for HY2022 and FY2022 have been restated to reflect the impact of the adoption of IFRS 17.

		Increase/ (Decrease) in adjusted operating Profit		Increase/ (Decrease) in PBT		Impact on Equity	
HY2023	Change in assumptions	Gross £m	Net £m	Gross £m	Net £m	Gross £m	Net £m
Annuitant mortality	+5% qx	**641**	**82**	**(451)**	**(39)**	**(345)**	**(30)**
Annuitant mortality	-5% qx	**(677)**	**(83)**	**441**	**34**	**337**	**26**
Interest rate	+100bps	**—**	**—**	**(447)**	**(419)**	**(342)**	**(320)**
Interest rate	-100bps	**—**	**—**	**549**	**542**	**420**	**414**
Inflation	+100bps	**—**	**—**	**365**	**385**	**279**	**294**
Inflation	-100bps	**—**	**—**	**(232)**	**(245)**	**(178)**	**(188)**
Credit spread widening	+100bps	**—**	**—**	**(570)**	**(474)**	**(436)**	**(363)**
Change in property prices	+10%	**—**	**—**	**40**	**39**	**31**	**30**
Change in property prices	-10%	**—**	**—**	**(64)**	**(64)**	**(49)**	**(49)**
Expenses	+10%	**(81)**	**(81)**	**39**	**39**	**29**	**29**

		Increase/ (Decrease) in adjusted operating Profit		Increase/ (Decrease) in PBT		Impact on Equity	
HY2022		Gross £m	Net £m	Gross £m	Net £m	Gross £m	Net £m
Annuitant mortality	+5% qx	774	72	(282)	(29)	(228)	(24)
Annuitant mortality	-5% qx	(820)	(72)	165	(23)	133	(19)
Interest rate	+100bps	—	—	(317)	(337)	(257)	(273)
Interest rate	-100bps	—	—	498	567	403	460
Inflation	+100bps	—	—	314	360	255	292
Inflation	-100bps	—	—	(237)	(270)	(192)	(219)
Credit spread widening	+100bps	—	—	(451)	(323)	(365)	(262)
Change in property prices	+10%	—	—	53	52	43	42
Change in property prices	-10%	—	—	(75)	(74)	(61)	(60)
Expenses	+10%	(87)	(87)	21	21	17	17

Notes to the financial statements continued

Note E — Insurance contracts and reinsurance (continued)
E.8 Sensitivity analysis (continued)

		Increase/ (Decrease) in adjusted operating Profit		Increase/ (Decrease) in PBT		Impact on Equity	
FY2022		Gross £m	Net £m	Gross £m	Net £m	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 period. 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 half year 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.

Notes to the financial statements continued

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 period ended 30 June 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 2022 and amortises by 1/16th each year from 1 January 2017. As at 30 June 2023, solvency estimates allow for amortisation of 7/16ths of transitional solvency relief (HY2022: 6/16ths, FY2022: 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 30 June 2023, Own Funds for Rothesay were £8,670m (HY2022: £8,298m, FY2022: £8,151m) made up as follows:

	HY2023 £m	HY2022 £m	FY2022 £m
Total IFRS equity, as previously reported	**n/a**	6,204	6,261
Impact of initial application of IFRS 17, net of tax	**n/a**	(1,199)	(1,199)
Decrease in profit or loss due to IFRS 17 application	**n/a**	(668)	(920)
Total IFRS equity, as restated	**4,332**	4,337	4,142
Liability valuation differences and other regulatory adjustments	2,587	2,615	2,726
Total Tier 1	**6,919**	6,952	6,868
Tier 2 debt valuation	**1,323**	889	849
Tier 3 debt valuation	**428**	457	434
Own Funds available to meet SCR	**8,670**	8,298	8,151
Own Funds eligible to meet SCR	**8,234**	8,298	8,151

Note that as at 30 June 2023, only £8,234m of Own Funds were eligible to meet the SCR (HY2022 and YE2022: All of the Own Funds).

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.

Notes to the financial statements continued

Note G — Other statement of condensed consolidated financial position notes

G.1 Deferred tax assets

Deferred tax balances comprise:

	HY2023 £m	HY2022 restated £m	FY2022 restated £m
Deferred tax arising from the impact of IFRS 17 initial application	**396**	396	396
Deferred tax on 2022 losses carried forward arising from IFRS 17 P&L restatement	**304**	222	304
Total deferred tax arising from IFRS 17 application	**700**	618	700
Reversal of IFRS 17 transitional losses	**(33)**	—	—
Other temporary differences	**(1)**	(5)	2
Total temporary differences	**666**	613	702

The movements in the deferred tax balances were as follows:

	HY2023 £m	HY2022 restated £m	FY2022 restated £m
At 1 January	**702**	(5)	(5)
Deferred tax arising from the impact of IFRS 17 initial application	**n/a**	396	396
Restated opening balance as at 1 January	**702**	391	391
Deferred tax on 2022 losses carried forward arising from IFRS 17 Profit & Loss restatement	**—**	222	304
Reversal of IFRS 17 transitional losses	**(33)**	—	—
Deferred tax credited to equity	**(2)**	—	(1)
Current period/year charge	**(1)**	—	8
At period/year end	**666**	613	702

Notes to the financial statements continued

Note G — Other statement of condensed 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% (FY2022: 19%, HY2022: 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 (HY 2022: £890m), 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 YE2022. 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 10-year period resulting in an annual tax deduction of £282m over the 10 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 (i.e. at HY2022), 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 HY2022 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 global 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.

Notes to the financial statements continued

Note H — Interests in subsidiaries

H.1 Investments in subsidiaries

The financial statements include the financial statements of Rothesay Life Plc and the subsidiaries listed in the following table:

Company undertakings	Country of incorporation	Primary business operation	HY2023 £m	HY2022 £m	FY2022 £m	HY2023 % equity interest	HY2022 % equity interest	FY2022 % equity interest
LT Mortgage Financing Limited	UK	Service company	**6**	6	6	**100%**	100%	100%
Rothesay Property Partnership 1 LLP	UK	Service company	**—**	—	—	**100%**	100%	100%
Rothesay MA No.1 Limited	UK	Service company	**5**	5	5	**100%**	100%	100%
Rothesay Mortgages Limited (formerly known as Rothesay MA No.2 Limited)	UK	Service company	**—**	—	—	**—**	100%	—
Rothesay MA No.3 Limited	UK	Service company	**2**	2	2	**100%**	100%	100%
Rothesay MA No.4 Limited	UK	Service company	**—**	—	—	**100%**	100%	100%

Subsidiaries are held at cost less impairment.

The above subsidiary undertakings are registered in the United Kingdom. The registered office and principal place of business for all subsidiary undertakings is The Post Building, 100 Museum Street, London WC1A 1PB.

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. The entity ownership was transferred to the Group holding company Rothesay Limited during 2022.

Rothesay MA No.4 Limited (RMA4) was incorporated during November 2019, RMA4 remains dormant.

Notes to the financial statements continued

Note I — Other notes

I.1 Related parties disclosures

Ultimate holding company

At the financial statement date, the immediate and ultimate parent company was Rothesay Limited, which is incorporated in the United Kingdom. Group financial statements are prepared for Rothesay Limited, copies of which can be obtained from the Company Secretary, The Post Building, 100 Museum Street, London WC1A 1PB.

Related party transactions

Rothesay entered into various transactions with fellow participating interests which are subject to common control from the same source.

	HY2023 £m	HY2022 restated £m	FY2022 restated £m
Statement of comprehensive income			
Net recovery from reinsurance contracts held	**1**	2	—
Finance expense for reinsurance contracts held	**(1)**	(90)	(93)
Investment return	**(5)**	—	(9)
Finance costs	**(9)**	(9)	(18)
Operating expenses	**(1)**	(2)	(5)
Statement of financial position			
Financial investments	**358**	—	187
Reinsurance contract liabilities	**(76)**	(86)	(82)
Borrowings	**299**	299	299
Capital	**2,463**	2,463	2,463

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.

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:

	HY2023 £m	HY2022 £m	FY2022 £m
Salaries, bonus and other employee benefits	**6**	4	24
Equity-based compensation payments	**16**	8	14
Pension costs	**—**	—	1
Total transactions	**22**	12	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.

Notes to the financial statements continued

Note I — Other notes (continued)

I.1 Related parties disclosures (continued)

The tables below represent transactions between RLP, its parent Rothesay Limited, its subsidiaries LTMF, RMA1 and RMA3 and other group companies RPML, Rothesay Asset Management Australia Pty Ltd and Rothesay Asset Management North America LLC.

Transactions with RL	HY2023 £m	HY2022 £m	FY2022 £m
Statement of comprehensive income			
Interest income	**1**	—	1
Cost transfer	**2**	2	5
Statement of financial position			
Other receivables	**87**	76	80
Capital	**2,463**	2,463	2,463

Transactions with LT Mortgage Financing Limited	HY2023 £m	HY2022 £m	FY2022 £m
Statement of financial position			
Other payables	**226**	37	224
Capital	**6**	6	6

Transactions with Rothesay MA No.1 Limited	HY2023 £m	HY2022 £m	FY2022 £m
Statement of financial position			
Other receivables	**—**	—	—
Other payables	**79**	21	73
Capital	**5**	5	5

Transactions with Rothesay MA No.3 Limited	HY2023 £m	HY2022 £m	FY2022 £m
Statement of financial position			
Other receivables	**—**	—	—
Other payables	**35**	27	39
Capital	**2**	2	2

Transactions with RPML	HY2023 £m	HY2022 £m	FY2022 £m
Statement of comprehensive income			
Cost transfer	**(93)**	(63)	(126)
Statement of financial position			
Other payables	**(97)**	66	104

Notes to the financial statements continued

Note I — Other notes (continued)
I.1 Related parties disclosures (continued)

Transactions with Rothesay Asset Management North America LLC	HY2023 £m	HY2022 £m	FY2022 £m
Statement of comprehensive income			
Service fee	**(2)**	(4)	(9)
Statement of financial position			
Other receivables	**3**	—	1
Other payables	**(1)**	1	3

Transactions with Rothesay Asset Management Australia Pty Ltd	HY2023 £m	HY2022 £m	FY2022 £m
Statement of comprehensive income			
Transaction fee	**—**	—	—
Service fee	**(1)**	—	(1)
Statement of financial position			
Other receivables	**—**	—	—
Other payables	**—**	—	1

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). 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). 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.

Notes to the financial statements continued

Note I — Other notes (continued)

I.2 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 and forward settling bonds. Rothesay also signed up to a number of multi-year contracts. Rothesay expects to pay a further £293m within the next five years (HY2022: £407m, FY2022: £667m), £272m of this being due within 12 months of the financial reporting date (HY2022: £93m, FY2022: £631m).

	HY2023 £m	HY2022 £m	FY2022 £m
Not later than one year	**272**	93	631
Later than one year and no later than five years	**21**	314	36
Later than five years	**—**	—	—
Total other commitments	**293**	407	667

I.3 Post balance sheet event

On 6 July 2023, the Board approved a dividend, the quantum of which was confirmed by a sub-committee of the Board as 68.83p per share (or £351m) on 8 August 2023.

Alternative Performance Measures

As noted on page 13, 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.

Assets under management

Assets under management can be derived by adjusting total assets for reinsurance, payables, derivatives, collateralised financing and deferred tax 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 the business.

Assets under management (APM)	HY2023 £m	HY2022 restated £m	FY2022 restated £m
Total assets	**98,346**	84,483	95,007
Less reinsurance assets	**(73)**	(23)	(54)
Less payables and financial liabilities	**(49,399)**	(31,851)	(47,126)
Less deferred tax asset	**(666)**	(613)	(702)
Assets under management	**48,208**	51,996	47,125

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. It corresponds to the present value of future cash inflows in note E.5(a).

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.

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 13.

Measure	Reconciliation to IFRS
New business profit	New business premium less increase in best estimate liabilities, allocated acquisition expenses and risk adjustment. This is equal to the increase in CSM as a result of new business including new reinsurance (see note E.5).
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; and the investment return on surplus assets; • 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 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).
Borrowing costs	Interest payable on borrowings. This is a subset of the finance costs shown in note B.4.
Economic (losses)/profits	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).

Alternative Performance Measures continued

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 IFRS17 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 IFRS 17 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 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.
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.

Glossary of terms continued

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.
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.
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.
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 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 in the period.
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.

Glossary of terms continued

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 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.
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 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 risk free 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.
New business	New insurance contracts and reinsurance inwards sold during the period. 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.

Glossary of terms continued

Non-attributable costs	These are operating expenses incurred in the period 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.
NZAOA sub-portfolio	Assets in our investment portfolio which are listed and have an ISIN (International Securities Identification Numbering system).
Onerous contracts	An insurance contract is classified as onerous as 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.
PAD	The provision for adverse deviation approach reflects the compensation that Rothesay requires for bearing the non-financial uncertainty in the liabilities.
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.
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).
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.
Risk adjustment	Defined within IFRS 17 as the compensation that Rothesay requires for bearing the non-financial uncertainty in the liabilities.
Risk margin	Under Solvency II, the cost of transferring non-hedgeable risks.
RL	Rothesay Limited.

Glossary of terms continued

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).
RPML	Rothesay Pensions Management Limited, the Group's service company.
RSUs	Restricted share units.
S2PMA/S2PFA	S2PMA/S2PFA 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.
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.
Sk	Smoothing parameter in 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, the Company is required to hold the greater of the capital required under the new Solvency II Pillar 1 framework and the capital required under its own economic capital models Solvency II Pillar 2.
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.
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.
TCFD	Task Force on Climate Related Financial Disclosures.
Third party administration (TPA) agreement	Contract with pensions administrator to process claims and payroll on behalf of Rothesay.
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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