Rothesay
Protecting Pensions

Securing the future

Rothesay Limited & Rothesay Life Plc
Group-wide Solvency and Financial Condition Report
as at 31 December 2023

Rothesay Life Plc. Registered in England No. 06127279. Registered Office: The Post Building, 100 Museum Street, London WC1A 1PB. FCA Registered No. 466067
Rothesay Limited. Registered in England No. 08668809. Registered Office: The Post Building, 100 Museum Street, London WC1A 1PB.

Our purpose

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

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Introduction

1. Background and basis of preparation

The Solvency II regime is based around a three pillar model:

- Pillar 1 – the qualitative and quantitative requirements for the calculation of solvency.
- Pillar 2 – governance requirements and own risk assessment.
- Pillar 3 – reporting requirements.

The annual Solvency and Financial Condition Report (SFCR) is a key component of Pillar 3. The structure and contents of the SFCR are prescribed under Solvency II regulations. The disclosures in the Group SFCR and quantitative reporting templates (QRTs) have been prepared in accordance with applicable PRA Rules and Solvency II regulations.

Sections A and D include information based on the recognition and measurement principles applicable under the relevant Generally Accepted Accounting Principles (GAAP) as presented in the financial statements. The Rothesay Limited Group consolidated financial statements are prepared in accordance with UK-adopted International Accounting Standards and in conformity with the requirements of the Companies Act 2006.

The SFCR is structured as follows:

- Section A provides a description of Rothesay and its performance for the year ended 31 December 2023;
- Section B describes the system of governance for Rothesay;
- Section C describes the risks faced by the business and the mitigation techniques used;
- Section D provides details of the way in which assets and liabilities have been valued for solvency purposes; and
- Section E provides information on Rothesay's solvency position.

The required QRTs have been provided as an appendix to this report.

Throughout the SFCR, where we have provided IFRS comparatives, we have noted where these have been restated due to the introduction of IFRS 17. IFRS 17 has introduced significant changes to the accounting for insurance and 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.

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.

Further information on the performance of Rothesay Limited (RL) and Rothesay Life Plc (RLP) can be found in the 2023 Report and Accounts. These can be found at www.rothesay.com/about-us/financials.

2. Scope

The SFCR covers both:

- Rothesay Limited (RL), and its subsidiaries (the Group or Rothesay); and
- Rothesay Life Plc (RLP), the regulated insurance subsidiary.

A summary of the waivers and discretions held by RLP can be found in Section B.8.

As a relatively simple group, Rothesay applies all of our risk management, internal control systems and reporting procedures at a Group level and they are therefore applied consistently across all entities in the Group, including RLP, and also at an employee level.

Executive Summary

A. Business and performance

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

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

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

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

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

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

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

Rothesay's business model is focused around these key areas:

- Underwriting and execution;
- Delivering the pension benefits;
- Transition and invest the assets; and
- Long-term risk management.

2023 was one of our strongest years creating very positive momentum going forward. The year included these key highlights:

- **New business:** During the year, Rothesay wrote new business of £12.7bn (2022: £3.3bn).
- **IFRS profits:** Adjusted operating profit of £1,358m (Restated 2022: £579m). IFRS profit before tax of £906m (Restated 2022: loss of £(1,054)m).
- **Solvency position:** Regular stress testing and live monitoring of the financial and solvency position of Rothesay has allowed us to respond dynamically as the market evolved. We ended the year with Group Solvency Capital Requirement (SCR) coverage of 273% (2022: 255%) and RLP SCR coverage of 276% (2022: 258%).
- **FIM:** Our application to use a Full Internal Model (FIM) was approved by the Prudential Regulation Authority (PRA).
- **Dividend:** During the year Rothesay Limited paid an interim dividend of 23p per share, or £351m.

Executive Summary continued

B. System of governance

The Boards of Rothesay, together with management, are responsible for ensuring the security of our obligations to our policyholders and generating and delivering sustainable shareholder value through the management of Rothesay's business.

Rothesay's Board Committee structure as at 31 December 2023 is shown below:

Rothesay Limited Board

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

Nomination Committee

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

Audit Committee

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

Customer Conduct Committee

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

Board Risk Committee

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

Remuneration Committee

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

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

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

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

First line of defence

Risk Owners
Day-to-day risk management is delegated from the Board to the Chief Executive Officer (CEO) and, through a system of delegated authorities, to business managers. Rothesay also makes the distinction between:
- the risk-taking functions, including investment and new business origination; and
- the first line control functions, who are responsible for ensuring the integrity of Rothesay's operations and reporting. These include Operations, Finance and Legal.

Second line of defence

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

Third line of defence

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

Executive Summary **continued**

Our risk management governance structure

Rothesay Limited

Board Risk Committee	Customer Conduct Committee
Assists the Board in providing leadership, direction and oversight of the Group's risk appetite, tolerance, risk strategy, risk governance and Risk Management Framework and of the risk aspects of major investments and corporate transactions. Its primary function is the ongoing monitoring and control of all financial, operational, insurance and other enterprise-wide risks associated with the activities of Rothesay.	Assists the Board in ensuring that conduct towards customers meets Rothesay's strategic objectives, operates within risk appetite, and maintains compliance with applicable laws and regulatory requirements and expectations.
Executive Risk Committee **	**Executive Customer Committee ***
Responsible for the overall operation of the Risk Management Framework (RMF), ongoing monitoring and control of enterprise-wide risk, including review and approval of all material new investment, hedging or liability transactions.	Responsible for ensuring business culture, strategy and operational processes are effectively controlled and deliver appropriate customer outcomes.

Risk Management Committees

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

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

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

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

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

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

Executive Summary continued

In order to do this Rothesay has defined a Risk Taxonomy, which is a consistent way of describing and subdividing risks consistently across Rothesay and between time periods. This is regularly reviewed to ensure that it is complete.

C. Risk profile

Rothesay is a purpose-built annuity provider whose operations are materially within the United Kingdom. Our strategic approach is to de-risk our business in order to achieve attractive risk-adjusted returns. We aim to protect regulatory surplus and minimise balance sheet volatility by hedging the majority of longevity risk and adopting a cautious approach to investment.

Risk management framework

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

Changes in Rothesay's risk profile

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

We participate in regulatory and Government consultations, including responding to the Government's consultation on residential leasehold ground rents that was published alongside the Leasehold and Freehold Reform Bill. The Bill is currently going through Parliament with the final form of the Bill and outcome of any legislation being uncertain. The valuation of impacted assets has been updated to reflect the increased uncertainty, informed by scenario analysis based upon our ongoing discussions with the Government, legal experts and other market participants.

Solvency capital requirement

The table below provides a breakdown of Rothesay’s solvency capital requirement (SCR) post-diversification benefit, between modules as at 31 December 2023 and 31 December 2022. Insurance risk relates mainly to longevity risk. Market risk is dominated by spread risk, i.e. the risk that credit spreads widen. The change in the composition of the SCR during 2023 reflects the impact of adopting the FIM.

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

Risk management is at the heart of Rothesay’s culture, systems and processes. We have a well established process of identifying, managing and monitoring risks, on a continuous basis. This allows the rapid, informed decision-making that enables Rothesay to manage through adverse conditions.

D. Valuation for solvency purposes

The table below shows the technical provisions of Rothesay (which are the same for RLP) as at 31 December 2023. Transitional solvency relief is calculated using transitional measures on technical provisions. The transitional solvency relief shown for 31 December 2023 allows for the impact of recalculation on that date and for amortisation of 7/16ths of the allowance. The transitional solvency relief shown for 31 December 2022 reflects amortisation of 6/16ths of the allowance.

Executive Summary continued

	2023 £m	2022 £m
Gross best estimate liabilities	**48,555**	35,498
Reinsurance liabilities	**3,304**	2,746
Risk margin	**645**	1,223
Transitional solvency relief (gross of tax impact)	**(222)**	(518)
Net technical provisions	**52,282**	38,949

Net technical provisions increased from £38.9bn as at 31 December 2022 to £52.3bn as at 31 December 2023 largely as a result of the execution of £12.7bn of new business. The reduction in the Risk Margin from £1.2bn to £0.6bn was predominantly due to the Risk Margin reform, which targeted a 65% reduction in the Risk Margin.

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

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

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

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

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.

Executive Summary continued

As at 31 December 2023, RLP had available Own Funds of £8,868m (2022: £8,151m) and Rothesay Limited had available Own Funds of £8,776m (2022: £8,066m).

Group SCR coverage increased from 255% at 31 December 2022 to 273% at 31 December 2023 and SCR coverage at RLP increased from 258% on 31 December 2022 to 276% on 31 December 2023. SCR coverage differs between the Group and RLP because of Group adjustments. This can be seen in QRT S.23.01 Own Funds. SCR and Minimum Capital Requirement (MCR) coverage is summarised in the table below:

	RL		RLP	
	2023	2022	2023	2022
Tier 1 capital (£m)	**6,916**	6,782	**7,008**	6,867
Tier 2 capital (£m)	**1,402**	849	**1,402**	849
Tier 3 capital (£m)	**458**	435	**458**	435
Own Funds available to meet the SCR (£m)	**8,776**	8,066	**8,868**	8,151
Ineligible capital	**(310)**	—	**(310)**	—
Own Funds eligible to meet SCR	**8,466**	8,066	**8,558**	8,151
SCR (£m)	**3,101**	3,162	**3,101**	3,162
Surplus above SCR (£m)	**5,365**	4,904	**5,457**	4,989
SCR coverage (%)	**273%**	255%	**276%**	258%
SCR coverage without transitional solvency relief (%)	**264%**	232%	**267%**	235%
MCR (£m)	**1,089**	802	**1,089**	802
Total eligible Own Funds to meet the MCR (£m)	**7,133**	6,942	**7,225**	7,027
MCR coverage (%)	**655%**	866%	**663%**	877%

After allowing for amortisation of another 1/16th of transitional solvency relief on 1 January 2024, SCR coverage falls to 275% at RLP and 272% at RL Group. RL and RLP have continued to meet both the Minimum Capital Requirement and Solvency Capital Requirement during 2023. Eligible Own Funds to meet MCR excludes all Tier 3 capital, and Tier 2 capital is restricted to 20% of MCR.

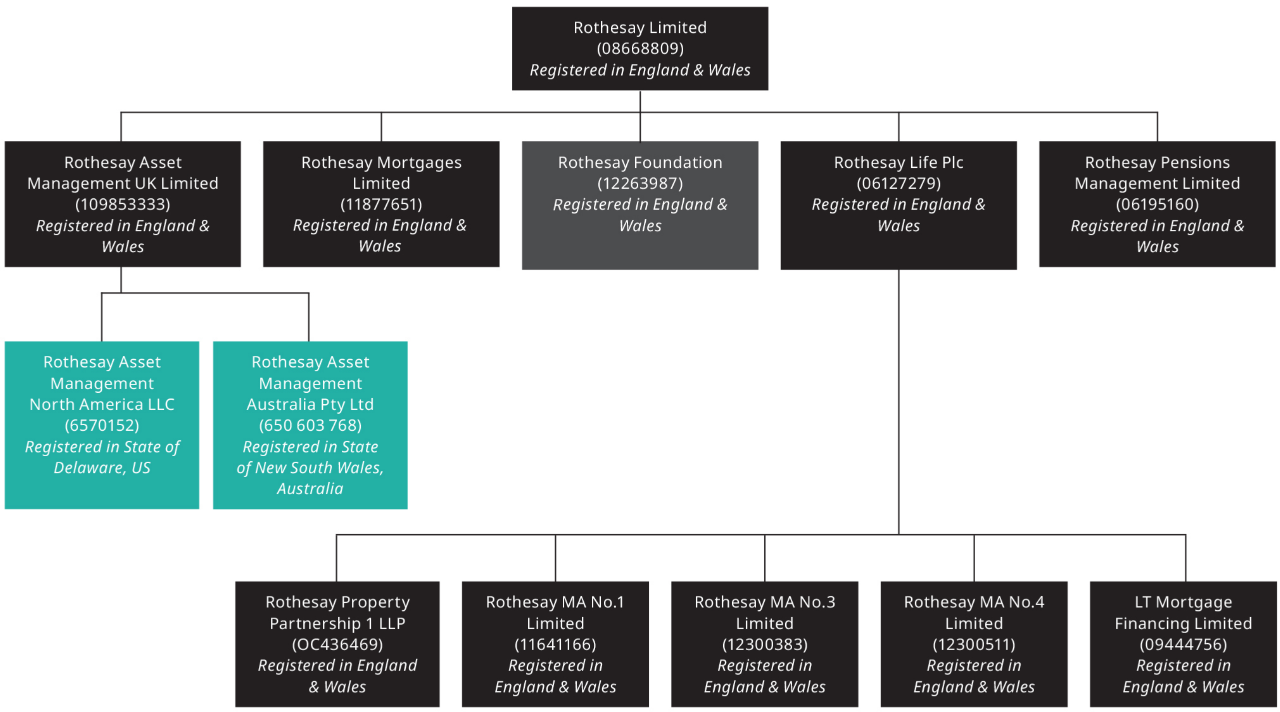
A. Business and performance

A.1 Business

A.1.1 Rothesay background and structure

Rothesay Limited is the ultimate holding company of the Rothesay Group, and is a UK limited company with twelve wholly owned subsidiaries (the Group).

The structure of the Rothesay Group is shown in the diagram below:



A. Business and performance continued

A summary of Rothesay's entities is provided in the table below (based on IFRS valuations in the parent company accounts).

Group undertakings	Country of incorporation	Primary business operation	2023 IFRS valuation £m	2022 IFRS valuation £m	2023 % equity interest	2022 % equity interest
Rothesay Pensions Management Limited	UK	Service company	**2**	1	**100%**	100%
Rothesay Life Plc	UK	Life insurance	**2,464**	2,464	**100%**	100%
LT Mortgage Financing Limited	UK	Service company	**6**	6	**100%**	100%
Rothesay Property Partnership 1 LLP	UK	Service company	**—**	—	**100%**	100%
Rothesay MA No.1 Limited	UK	Service company	**5**	5	**100%**	100%
Rothesay Mortgages Limited (formerly known as Rothesay MA No.2 Limited)	UK	Service company	**—**	—	**100%**	100%
Rothesay MA No.3 Limited	UK	Service company	**2**	2	**100%**	100%
Rothesay MA No.4 Limited	UK	Service company	**—**	—	**100%**	100%
Rothesay Asset Management UK Limited	UK	Service company	**10**	10	**100%**	100%
Rothesay Asset Management Australia Pty Ltd	Aus	Service company	**5**	5	**100%**	100%
Rothesay Asset Management North America LLC (formerly known as Rothesay Asset Management US LLC)	US	Service company	**5**	5	**100%**	100%

Rothesay Pensions Management Limited (RPML) provides services to other companies in the Group.

RLP is a registered public limited company and is Rothesay's regulated insurance entity.

LT Mortgage Financing Limited (LTMF) was incorporated as a wholly owned subsidiary of RLP on 17 February 2015. Following the approval of the Partial Internal Model (PIM) during 2018, a number of portfolios of lifetime mortgages have been transferred to LTMF and a series of notes have been issued to the Matching and Non-Matching Adjustment funds of RLP.

Rothesay Property Partnership 1 LLP was incorporated during March 2021 and remains dormant.

Rothesay MA No.1 Limited (RMA1) was incorporated as a wholly owned subsidiary of RLP on 24 October 2018. Following the approval of the PIM, loans secured on ground rents were transferred to RMA1 and a series of notes were issued to the Matching and Non-Matching Adjustment funds of RLP.

Rothesay Mortgages Limited (formerly known as Rothesay MA No.2 Limited) was incorporated during March 2019 and underwent a name change in September 2022.

Rothesay MA No. 3 Limited (RMA3) was incorporated as a wholly owned subsidiary of RLP on 6 November 2019. Since 2020, Rothesay's portfolio of Dutch mortgages reached a sufficient size for restructuring, and a number of portfolios of Dutch mortgages were transferred to RMA3 and a series of notes were issued to the Matching and Non-Matching Adjustment funds of RLP.

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

A. Business and performance **continued**

Rothesay Asset Management UK Limited was incorporated during September 2017 as an intermediate holding company for Rothesay Asset Management North America LLC and Rothesay Asset Management Australia Pty Ltd. Both companies assist RLP in originating and overseeing both US and Australian assets.

Rothesay Asset Management North America LLC (formerly known as Rothesay Asset Management US LLC) was incorporated in October 2017 and is registered in Delaware, United States of America. The registered office is Corporate Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, New Castle County, USA.

Rothesay Asset Management Australia Pty Ltd was incorporated during July 2021 and is registered in New South Wales, Australia. The registered office is Level 12, 680 George Street, Sydney, NSW 2000, Australia.

During October 2019, Rothesay established a charitable foundation, the Rothesay Foundation; this entity is not incorporated into the consolidated results of Rothesay Limited as the charity is controlled by its trustees rather than Rothesay Limited or the Group.

A.1.2 Material lines of business and geographical areas

Rothesay is a purpose-built annuity provider, sourcing business through three different channels:

- Pension risk transfers (both buy-in and buy-outs) from pension schemes;
- Reinsurance of annuity portfolios followed by Part VII transfer; and
- Acquisition of other annuity providers.

Rothesay only writes insurance business in the United Kingdom. Rothesay Asset Management North America LLC assists Rothesay in sourcing US assets and Rothesay Asset Management Australia Pty Ltd assists Rothesay in sourcing Australian assets.

Rothesay manages the risks associated with our in-force portfolio of annuities in order to protect policyholder security and provide shareholders with a stable return. We look to use surplus capital to fund growth opportunities which we assess with a disciplined approach to risk and return.

A.1.3 Significant business events during 2023

Other business events

Improved pension scheme funding as a result of the rise in interest rates relative to 2022, contributions from sponsors and the run-off of closed schemes mean that pension scheme buy-out is increasingly affordable, creating very positive conditions within the Bulk Purchase Annuity market.

We assisted 12 pension schemes to de-risk in 2023 (2022: 9), generating £12.7bn of new business premiums (2022: £3.3bn), and £906m of IFRS pre-tax profits (2022: restated loss of £(1,054)m) for the Rothesay Limited Group and IFRS pre-tax profit of £913m (2022: restated loss of £(1,048)m) for Rothesay Life Plc . This included transactions with six existing clients. Our performance throughout the year was one of our strongest ever, with 2024 having the potential to be even busier given our record new business pipeline.

A.1.4 Other information

Regulators

The Group supervisors can be contacted as follows:

Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA
0207 601 4878

The Financial Conduct Authority
12 Endeavour Square
London
E20 1JN
0207 066 1000

A. Business and performance continued

Auditors
The statutory accounts are audited by PricewaterhouseCoopers LLP who can be contacted as follows:

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT
0207 583 5000

Shareholders
The shareholdings of each ultimate shareholder in Rothesay Limited as at 31 December 2023 based on the percentage nominal share capital owned are as follows:

- GIC Private Limited: 49%
- MassMutual Financial Group: 49%

The remaining percentage is owned by the Directors, management, employees and the trustees of The Rothesay Employee Share Trust and The Rothesay Life UK Employee Share Incentive Plan.

Rothesay Limited holds 100% of the shares in RLP.

A.1.5 Intra-Group transactions
Rothesay entered into various transactions with fellow Group undertakings. There are no intra-Group reinsurance arrangements or other arrangements intended to transfer risk.

Details of outstanding balances in respect of transactions with RLP are as follows:

	2023 £m	2022 £m
Statement of comprehensive income		
Finance costs	**(3)**	(1)
Cost transfer	**(5)**	(5)
Statement of financial position		
Other payables	**91**	80
Capital	**2,464**	2,464

All transactions are executed on an arm's length basis and conflicts of interest are avoided by ensuring that relevant Board approvals at RLP and RL are received.

The Rothesay Employee Share Trust (the Trust) was established to purchase and hold shares of RL for delivery to employees under employee share schemes. Shares owned by the Trust are included at cost in RL’s consolidated statements of financial position and are shown as a deduction from shareholders' equity. Gains and losses on sale of shares are charged or credited to the share-based payment reserve in equity. They are disclosed as employee scheme shares until they vest to employees.

On 3 April 2023, the Trust purchased 361,919 B ordinary shares for consideration of £1.4m. During 2023 the Trust acquired 10,006 (2022: 9,040) B ordinary shares from employees leaving employment.

On 29 March 2022, the Trust purchased 2,999,534 B ordinary shares for consideration of £12.4m. On 31 March 2022, the Trust sold 4,819,277 B ordinary shares to members of key management personnel and their families for consideration of £20m.

A. Business and performance continued

During March 2020, the Company established an employee share plan for all UK employees called the Rothesay Life UK Employee Share Incentive Plan (ESIP). The plan has been structured to operate within specific rules set by HM Revenue & Customs. The employee benefit trust was established to support the ESIP (the ESIP Trust). During the year, the Trust transferred 380,060 shares to the ESIP Trust (2022: 263,115 shares). These shares are held in trust for participating employees in accordance with the ESIP rules. Shares owned by the ESIP Trust are included at cost in the consolidated statement of financial position and are shown as a deduction from shareholders' equity. They are disclosed as employee scheme shares until they are withdrawn.

As noted above, RPML employs all of Rothesay's UK-based staff and provides services to the rest of the Group. Details of outstanding balances in respect of transactions with RPML are as follows:

	2023 £m	2022 £m
Statement of financial position		
Other payables	**8**	22
Capital	**2**	2

Transactions with Rothesay Asset Management UK Limited were as follows:

	2023 £m	2022 £m
Capital	**10**	10

Transactions with LT Mortgage Financing Limited
Between 2018 and 2022, £4.9bn of lifetime mortgages were transferred from RLP to its subsidiary LT Mortgage Financing Limited (LTMF). During 2023 a further £0.6bn were transferred. Whenever lifetime mortgages were transferred, LTMF became the beneficial owner of the lifetime mortgages in exchange for the issue of loan notes. These transactions took place on an arm's length basis using the fair value of the lifetime mortgages. Under IFRS 9, the loans cannot be derecognised from RLP as RLP effectively maintains all the risk and rewards and control of the mortgages after the securitisations through the loan notes.

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.

Transactions with Rothesay MA No.3 Limited
During 2020 and 2021, €1.0bn of Dutch mortgage loans were transferred from RLP to its subsidiary Rothesay MA No.3 Limited (RMA3). During 2023 a further €1.0bn were transferred. In each case, RMA3 became the beneficial owner in the Dutch mortgage loans in exchange for the issue of loan notes. These transactions 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.

A. Business and performance continued

A.2 Underwriting performance

Since we prepare our financial statements in accordance with IFRS, the underwriting performance information given in this section is on an IFRS basis.

The Rothesay Limited Group achieved an IFRS profit before tax of £906m (Restated 2022: loss of £(1,054)m) and an adjusted operating profit before tax of £1,358m (Restated 2022: £579m). The financial performance analysis shown in the table below provides an explanation of the way in which profits and losses have been generated.

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

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

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 during the year exceeds the CSM released during the year. If no new business is written then the reverse is likely to be true. The net increase in CSM was £731m (2022: £170m).

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

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

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

The Annual Report and Accounts for Rothesay and RLP can be obtained from Companies House or via our website at www.rothesay.com.

A. Business and performance continued

A.3 Investment performance

The table below provides an analysis of the Rothesay Limited Group's financial investments and liabilities at fair value.

	2023 £m	2022 £m
Collective investment schemes	**4,395**	4,586
Government sub-sovereign and agency obligations	**19,883**	12,058
Corporate bonds and other corporate debt	**28,211**	24,872
Collateralised agreements and financing	**63**	430
Loans secured on property	**6,447**	5,957
Certificates of deposit	**140**	130
Financial investments designated at Fair Value Through Profit and Loss (FVTPL)	**59,139**	48,033
Derivative assets	**33,617**	37,810
Equity release mortgages	**6,212**	5,086
Financial investments mandatorily measured at FVTPL	**39,829**	42,896
Total financial investments at FVTPL	**98,968**	90,929
Derivative financial instruments	**32,993**	37,799
Collateralised agreements and financing	**2,969**	3,628
Government, sub-sovereign and agency obligations	**—**	310
Total financial liabilities	**35,962**	41,737
Net financial investments	**63,006**	49,192

Net financial investments increased from £49.2bn at 31 December 2022 to £63.0bn at 31 December 2023, driven by the new business premiums.

A.3.1 Investment return

The table below provides an analysis of the investment return of the Rothesay Limited Group:

	2023 £m	2022 £m
Interest income on financial investments at FVTPL	**2,331**	1,789
Unrealised gains/(losses) on financial investments at FVTPL	**3,312**	(13,989)
Realised losses on financial investments at FVTPL	**(482)**	(3,100)
Investment management expenses	**(61)**	(76)
Total investment return/(loss)	**5,100**	(15,376)

In 2023, long-term interest rates were lower driving gains (unrealised gains plus realised losses) on the financial investments.

A. Business and performance continued

A.3.2 Information about profit and losses in equity

Hedging reserve

A foreign currency exposure arises on the RT1 notes issued in US dollars and the associated coupon payments. 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.

A.3.3 Information about investments in securitisations

Rothesay holds notes considered as securitisations from 22 issuing programmes. These are included in corporate bonds and other corporate debt.

RLP holds notes issued by LTMF, RMA1 and RMA3, which are RLP's wholly owned subsidiaries which were established in order to restructure Lifetime mortgages, Dutch mortgages and ground rent loans for Matching Adjustment purposes.

A.4 Performance of other activities

Rothesay does not have any other material activities.

A.5 Any other information

There is no other material information on the business and performance.

B. System of governance

B.1 General information on the system of governance

B.1.1 Corporate governance

Rothesay's governance structure means that decisions can be made quickly and efficiently whilst ensuring that there is robust oversight. A strong Board with an effective committee structure is a key component of the governance framework of Rothesay. We believe that the system of governance continues to be appropriate given the nature, scale and complexity of the risk inherent in the business. Rothesay's Board Committee structure as at 31 December 2023 is outlined below:

Rothesay Limited Board

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

Nomination Committee

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

Audit Committee

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

Customer Conduct Committee

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

Board Risk Committee

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

Remuneration Committee

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

The Boards are comprised of a combination of Executives, Directors appointed by the shareholders of Rothesay Limited and Non-Executive Directors, eight of whom are independent Non-Executive Directors (INEDs) and meet on a regular basis. The Board Committees are comprised of a combination of Directors appointed by the shareholders of Rothesay Limited and INEDs and meet on a regular basis.

As a relatively simple group, Rothesay applies all of our risk management, internal control systems and reporting procedures at a Group level and they are therefore applied consistently across all entities in the Group, including RLP, and also at an employee level.

The Board of Rothesay Limited

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

B. System of governance continued

The Board has a schedule of matters reserved for its consideration and approval, including:

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

Board Committees
The Board is supported by the Audit Committee, the Board Risk Committee, the Customer Conduct Committee, the Nomination Committee, and the Remuneration Committee.

Membership of the Committees is shown in the table below:

	Audit Committee	Board Risk Committee	Customer Conduct Committee	Nomination Committee	Remuneration Committee
Chair	Sophie O'Connor	Ed Giera	Terry Miller	Naguib Kheraj	Naguib Kheraj
NED members	Angela Darlington Ed Giera Heather Jackson Terry Miller Charles Pickup	Angela Darlington Heather Jackson Naguib Kheraj Sophie O'Connor Charles Pickup	Lisa Arnold Angela Darlington Heather Jackson Sophie O'Connor Charles Pickup	Angela Darlington Ed Giera Addy Loudiadis Terry Miller Charles Pickup	Lisa Arnold Terry Miller
Shareholder Director members				Tim Corbett Robin Jarratt	Tim Corbett Robin Jarratt

Terms of reference for the Committees can be found at www.rothesay.com/about-us/governance.

Nomination Committee
The Nomination Committee is responsible for monitoring the balance of skills, knowledge, experience, independence and diversity on the Board, identifying and recommending Board, Board Committee and certain senior management appointments to the boards of the various Group entities, as appropriate, and monitoring succession plans for the Executive Directors and the development plans of senior management within Rothesay. The responsibilities of the Committee include reviewing the structure, size and composition of the Board of Directors, identifying and nominating candidates to fill Board vacancies as and when they arise, and approving certain senior management appointments.

The Committee is composed of Non-Executive Directors with an appropriate mix of expertise and experience and a majority of independent Non-Executive Directors. In 2023, the other shareholder Directors were also invited to attend Committee meetings. The CEO also regularly attended Committee meetings when deemed appropriate.

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

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

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

B. System of governance **continued**

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

The Committee is composed solely of independent Non-Executive Directors with an appropriate mix of expertise and experience. In 2023, the Chairman of the Board, CEO, CFO, Chief Operating Officer, Chief Auditor, Chief Compliance Officer, Chair of the Executive Customer Committee and General Counsel also regularly attended Committee meetings. Other members of management were also invited to attend as appropriate, including to present reports.

Following extensive consideration at CCC, the Board approved Rothesay's first Consumer Duty Annual Assessment during the year. Terry Miller, an Independent Non-Executive Director and Chair of our Board-level Customer Conduct Committee (CCC), is Rothesay's Consumer Duty champion.

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

The Committee is also responsible for the oversight of the Executive Risk Committee (ERC) and its sub-committees, which are responsible for the ongoing monitoring and control of all financial risks, insurance risks and operational risks associated with the activities of Rothesay. The ERC has 17 members and is chaired by the Chief Risk Officer (CRO). The CEO, CFO, Chief Underwriting Officer, General Counsel, Chief Actuary, Non-Executive Directors and shareholder representatives regularly attended Committee meetings. Other members of senior management were also invited to attend as appropriate to present reports. The Committee also meets independently with the CRO on a regular basis.

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

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

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

Executive Management Committee
The Executive Management Committee is chaired by the Chief Executive Officer of Rothesay and its membership includes senior members of appropriate business and control units. The Committee has been delegated by the Boards of Rothesay the powers of day-to-day oversight and management of the business and affairs of Rothesay, subject to any specific matters reserved for consideration by either of the Boards of Rothesay. The Committee is accountable for business standards and practices, including risk management.

B.1.2 Material changes in the governance structure
The systems of governance are monitored on an ongoing basis to ensure that they remain robust and appropriate for the size of the organisation and the breadth of Rothesay's activities.

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.

B. System of governance **continued**

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

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

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

B.1.3 Remuneration policies and practices

Rothesay's remuneration policy is intended to:

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

This is achieved by ensuring that variable remuneration is linked to performance across a range of financial and non-financial metrics. The CRO provides input to the annual appraisal process and financial metrics are ignored when evaluating the performance of second and third line staff. Considerable attention is paid to non-financial matters in assessing performance, including policyholder experience, contribution to Environmental, Social and Governance (ESG) goals, compliance with Consumer Duty, operational risk management, compliance, conduct and teamwork.

Remuneration packages combine a base salary, cash bonuses, a deferred equity award plan and a long-term share appreciation rights plan (the SARs plan). The SARs plan provides the right to receive the upside on a fixed proportion of an agreed value of Rothesay shares over a defined time horizon, paid out in cash, subject to achievement of returns above an agreed hurdle.

The remuneration policy ensures that the deferred equity award plan stock vests and is delivered over several years. Any bonus that has been deferred is capable of a downwards adjustment or forfeiture and the rules of the deferred equity award plan and the SARs plan ensure that equity and cash awarded in the future can be clawed back even after vesting.

Pension schemes

Rothesay operates a defined contribution pension scheme and contributions to the scheme are charged to the statement of comprehensive income as they accrue.

B. System of governance continued

B.1.4 Material transactions with related parties

During 2023 Rothesay entered into various transactions with fellow participating interests which are subject to common control from the same source.

Key management personnel comprise the Directors of the Company, Directors of subsidiary undertakings and certain members of senior management. There are no material transactions between Rothesay and its key management personnel other than the transactions discussed below:

	2023 £m	2022 £m
Salaries, bonus and other employee benefits	**30**	24
Equity-based compensation payments	**35**	14
Pension costs	**1**	1
Total transactions	**66**	39

On 3 April 2023, members of key management personnel and their families sold 112,560 B ordinary shares to the 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.

B.1.5 Authority, resourcing and independence of control functions

The operation of the control functions is described in the following sections:

- Risk management - Section B.3
- Compliance - Section B.4.2
- Internal Audit function - Section B.5
- Actuarial function - Section B.6

The CRO, Chief Compliance Officer and Chief Auditor all have direct access to the relevant governing bodies, including private sessions without management present, which helps ensure that these key function holders have appropriate authority, access to resources and independence.

Financial metrics are not considered when evaluating the performance of second and third line staff.

B. System of governance continued

B.2 Fit and proper requirements

The FCA Handbook and PRA Rulebook require firms to ensure that anyone carrying on a Senior Management function or Certification function is fit and proper to perform their role. This requirement also applies to Non-Executive Directors who are not Senior Managers.

Rothesay's Fit and Proper Policy was first approved by the Board in November 2015. It has since been updated regularly, and at least annually, to ensure ongoing compliance with the fitness and propriety requirements of Solvency II and the Senior Managers & Certification Regime (SMCR). During the first half of 2023 operational responsibility for SMCR transitioned from Compliance to Rothesay's Legal function.

The Fit and Proper Policy and Rothesay's SMCR Framework set Rothesay's standards, systems and controls to identify, monitor and report:

- Who is in scope of fitness and propriety requirements;
- Individual designations under the regime;
- How fitness and propriety is assessed for both new starters and on an ongoing basis; and
- The governance arrangements in relation to individuals being approved as being fit and proper.

Assessment includes Rothesay's requirements concerning skills, knowledge and expertise applicable to persons who effectively run the business.

Rothesay's assessments of individuals' fitness and propriety reflect the SMCR fit and proper requirements, namely:

- Financial soundness;
- Honesty, integrity and reputation; and
- Competence and capability.

In addition, the Nomination Committee ensures that the Boards collectively possess appropriate qualifications, experience and knowledge about at least:

- Insurance and financial markets;
- Business strategy and general management;
- Governance;
- Risk management;
- Financial and actuarial analysis; and
- Regulatory framework and requirements.

Rothesay employs the following procedures to assess fitness and propriety:

- Performance against the applicable PRA Conduct Standards and FCA Conduct Rules;
- Performance against internal policies and procedures;
- Disclosure and Barring Service checks;
- Credit checks;
- Social media checks;
- Review of regulatory references;
- Review of training completion;
- Directorship search;
- Annual performance reviews and assessments; and
- Self-attestation annually.

In addition, the Chairman and SMCR Legal Regulatory Lead undertake individual review sessions with each of the Directors at least annually.

B. System of governance continued

B.3 Risk management system including the own risk and solvency assessment

B.3.1 Risk management framework

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

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

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

First line of defence

Risk Owners
Day-to-day risk management is delegated from the Board to the Chief Executive Officer (CEO) and, through a system of delegated authorities, to business managers. Rothesay also makes the distinction between:
- the risk-taking functions, including investment and new business origination; and
- the first line control functions, who are responsible for ensuring the integrity of Rothesay's operations and reporting. These include Operations, Finance and Legal.

Second line of defence

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

Third line of defence

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

How we manage risk

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

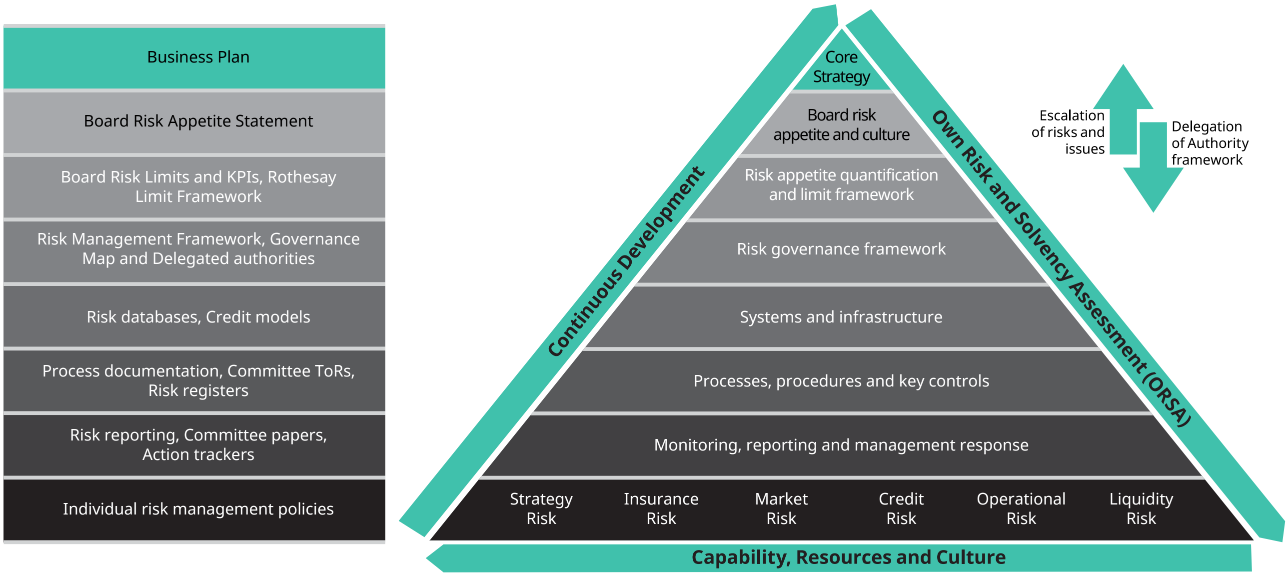
- To ensure that our liabilities to policyholders can be met in a full and timely manner.
- To ensure that our policyholders receive excellent customer service.
- To maintain our financial strength and capitalisation.
- To produce stable earnings from our in-force business.
- To protect and increase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

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

The Risk Management Framework is designed to ensure that:

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

B. System of governance continued



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

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

Board risk appetite and culture

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

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

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

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

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

B. System of governance **continued**

Risk preference	Description	Examples
Desired	Desired risks are those that we need to seek directly in order to deliver our core strategic goals. We will actively seek to take on these risks because taken together they are expected to deliver a good risk-adjusted return. These are also risks we believe we have the capability and capacity to manage effectively within risk appetite limits.	Most Insurance Risks (given that our key business line is writing annuities), some Credit Risks (given our desire to make a return through backing annuities with credit assets) and some Strategy Risks (given our clearly defined strategy).
Tolerated	Tolerated risks are those that we incur indirectly as a result of implementing our core strategy, and where we may be willing to accept some exposure. We will invest to ensure that these risks are adequately managed. We may seek to partially or fully reduce these risks depending on relative risk-adjusted returns.	Tolerated risks therefore mostly relate to Market Risks, where our business model naturally exposes us to these risks but we seek to reduce or hedge them partially or fully.
Undesired	Undesired risks are those that we incur indirectly as a result of implementing our core strategy, and where we would ideally seek to fully eliminate the exposure. These typically include risks where there is no compensation for holding the risk e.g. Operational Risk. We are willing to invest in order to avoid or manage these risks as far as possible. Even where significant action is taken, some residual risk may be unavoidable.	Undesired risks include most Liquidity Risks (as we have no desire to fail to pay our policyholders and counterparties), and Operational Risks (as these are unrewarded).

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

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

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

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

B. System of governance continued

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

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

In order to do this Rothesay has defined a Risk Taxonomy, which is a consistent way of describing and subdividing risks consistently across Rothesay and between time periods. This is regularly reviewed to ensure that it is complete.

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

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

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

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

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

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

B. System of governance **continued**

B.3.2 Own Risk and Solvency Assessment (ORSA)

The ORSA represents a key component of Rothesay's risk management and strategic planning framework, requiring the risk profile of Rothesay to be thoroughly understood, and the adequacy of capital resources given to this risk profile to be assessed, both today, and also on a forward-looking basis. Capital adequacy is assessed under prevailing market conditions and also under stressed conditions, where an onerous suite of market and business model stresses are applied. A single Group-wide ORSA is prepared covering both RL and RLP.
The ORSA process includes an assessment of our capital requirements over the next 12 months, which is based on Rothesay's full internal model which was approved for use in 2023. The full internal model comprehensively models all material quantifiable risks present on Rothesay's balance sheet.

This analysis is supplemented by a suite of portfolio stress tests which target key risks present on the balance sheet. As such, the stress tests performed will vary over time as the composition of the balance sheet, and hence risk profile of Rothesay, changes. The results of the stress testing analysis form a key input to risk management and investment decisions. Such stress testing also considers areas of correlated risk across the balance sheet, such as property risk or unsecured credit exposures.

A further important component of the ORSA process is the forward-looking risk assessment. We start by identifying circumstances which could increase the likelihood of business failure and could therefore cause the market to lose confidence in the firm. This can happen even before our regulatory capital position has fallen below minimum statutory requirements and can lead to difficulties in raising capital or transacting business with new and existing counterparties. The impact of the selected scenarios on our business projections, including our solvency position, IFRS earnings and market consistent embedded value, are then assessed, allowing potential management actions to be identified and explored. Furthermore, scenarios that may render our business non-viable are explored as part of a reverse stress testing exercise, allowing management actions to be developed where appropriate.

Whilst an annual ORSA report is produced, the ORSA process, including stress testing, is continuous and helps inform our business strategy and capital requirements over time. Furthermore, ad hoc ORSA exercises may be conducted if a material change in the risk profile of Rothesay was to take place in between the annual reviews. The Boards of Rothesay are involved throughout the ORSA process, from setting Rothesay risk appetite, to discussing the suite of stresses that should be applied to our business model.

Governance in relation to the ORSA

The business and affairs of RLP and Rothesay Limited are governed by their respective Boards. The Boards provide direction and oversight, establish the strategic direction, oversee their performance and review and approve the companies' accounts. In particular, the Boards have overall responsibility for the ORSA.

The Boards are supported by the Board Risk Committee (BRC) and Audit Committee:

- The BRC is responsible for reviewing the key assumptions underlying the ORSA assessment and other economic capital calculations.
- The Audit Committee has a duty to review the effectiveness of the system for risk governance and monitoring, and therefore review the process surrounding the production of the ORSA.

The Finance Committee, a sub-committee of the Executive Management Committee, is involved in the detailed review and challenge of the analysis underlying the ORSA.

B.3.3 Full internal model

Governance

The Board is accountable for ensuring the ongoing appropriateness of the design and operation of the internal model. The following bodies support the Board in their governance of the internal model. Their responsibilities cover the development of new models, their ongoing use and review, and changes to the existing model.

The BRC assists the Board in the ongoing monitoring of the internal model, including accountability for model reviews and the classification, approval and implementation of model changes. The Board Risk Committee is accountable for conducting model validation and delegates this responsibility to the CRO.

B. System of governance **continued**

The Audit Committee is responsible for overseeing the external reporting of the internal model results.

The CRO has overall responsibility for running the model, ensuring that it is appropriate for its purpose, functions as expected, complies with all relevant regulatory requirements and is in line with the key principles.

The Executive Risk Committee is responsible for the ongoing monitoring and control of risks associated with the activities of Rothesay. A number of duties and responsibilities are delegated to the Finance Committee. The Finance Committee is responsible for the approval of calibrations and methodologies for the internal model and other financial metrics. The Finance Committee plays an active role in the model development, use and change on an ongoing basis. This includes reviewing relevant internal model reports and management information produced by first and second line functions across the business.

The day-to-day running of the internal model is performed by the Actuarial function. The process and results are reviewed and monitored by the Risk function.

Material changes to internal model governance
No material changes to internal model governance were made in the year.

Validation approach
The FIM is subject to a regular cycle of validation and ongoing performance monitoring. The purpose of validation is:

- To provide the management and Board of Rothesay with confidence that the internal model reflects Rothesay's risk profile.
- To demonstrate to supervisory authorities that the capital requirements calculated by the FIM are appropriate.
- To provide assurance that the FIM is operating effectively, and can be relied upon at all times.
- To provide assurance that the inputs, methodologies and outputs of the FIM are representative of Rothesay's risk profile.
- To provide this assurance to the management and Boards of Rothesay from an independent perspective.
- To identify model shortcomings and/or identify potential improvements to the FIM that can then be addressed for the next review cycle.

Validation is an ongoing activity which takes different forms over the life cycle of the FIM. The model was subject to full initial validation before the application for approval was made. Thereafter, types of validation include:

- Validation of new internal model components and model changes.
- Regular validation as part of the ongoing validation cycle.
- Other ad hoc validation, for example at the request of the Board or BRC.

A range of processes and methods are used to validate the internal model. These are both quantitative and qualitative tests and include certain tests that are compulsory (under Solvency II), subject to their appropriateness and guidance on the use of proportionality and materiality.

The CRO is responsible for validation and for ensuring that the team undertaking the work is suitably qualified and independent from the development of the model. Where required, external resources are used to provide additional independent validation capabilities.

B.3.4 Use of external assessments
External credit ratings are used, where available, both when calculating the Matching Adjustment and also to determine the spread risk component of the SCR for certain assets. The second line credit team perform a review of such ratings to ensure that the methodologies adopted by the relevant External Credit Assessment Institutions (ECAIs) are reasonable. Circumstances where ratings require review by the credit team are formally documented. If a rating is assessed to not be appropriate, it may be downgraded in order to ensure that an appropriate quantum of capital is allocated to the position.

B. System of governance continued

B.3.5 Sensitivity of technical provisions

The extrapolation of the risk-free interest rate term structure is not material, as the Group's liabilities are predominantly denominated in sterling and have minimal sensitivity to tenors beyond the 50-year "last liquid point" at which extrapolation of the sterling risk-free interest rate term structure begins. Further, the great majority of the Group's liabilities are held in the Matching Adjustment fund and consequently have only a second-order sensitivity to movements in the risk-free interest rate term structure.

The Matching Adjustment is discussed in Section D.2.1 under discount rate.

B.3.6 Material non-SCR risks

As part of the annual ORSA exercise, a review of the appropriateness of the FIM (which went live in June 2023) given our risk profile, is conducted. Ad hoc assessments may also be triggered by a material change in our risk profile. A full description of the results of this assessment can be seen in the 2023 ORSA report. In summary, the exercise demonstrates that the internal model remains appropriately calibrated.

The Group is exposed to liquidity risk against which no capital is held.

B.3.7 Group risks

Rothesay does not consider there to be any material risks at a Group level which vary from entity level risks.

B.4 Internal control system

B.4.1 Internal control system

Rothesay's internal control system is designed to provide reasonable assurance that our financial reporting is reliable, is compliant with applicable laws and regulations and our operations are effectively controlled. The Board is ultimately responsible for overseeing and maintaining the adequacy and effectiveness of the risk management and internal control systems. In practice, the oversight and management of these systems necessarily involves participation of the Board and its sub-committees, Senior Management and all three lines of defence.

Primary responsibility for ensuring day-to-day oversight of the internal control system lies with Rothesay's Senior Managers (SMFs) and Key Function Holders. Rothesay promotes the importance of appropriate internal controls by:

i) ensuring that all personnel are aware of their role in the internal control system through, for example, Statements of Responsibilities;
ii) ensuring a consistent implementation of the internal control systems across Rothesay;
iii) establishing, monitoring and reporting mechanisms for decision-making processes; and
iv) continually reviewing the adequacy of the internal control system through risk and controls self-assessment exercises.

Please see Section B.3 above for a description of the internal control system relating to the Risk function.

B. System of governance continued

B.4.2 Compliance

Compliance is an independent second line control function led by the Chief Compliance Officer (CCO). Its role, remit and authority flow from the CCO's accountabilities in carrying on FCA-designated Senior Manager Functions SMF16 (Compliance oversight function) and SMF17 (Money laundering reporting function). The CCO reports to Rothesay's General Counsel and provides regular reports to Executive Committees, the Customer Conduct Committee, Audit Committee and the Board.

The Compliance function's strategic objective is to enable and protect Rothesay's business, people and customers. Compliance has four operational objectives that support its strategic objective.

1. Promote and maintain the highest cultural standards
- Support the CEO, senior management and governance forums to own, role model and drive a strong compliance culture and conduct-aware behaviours throughout the business;
- Ensure Rothesay sets the highest cultural and conduct standards in its Compliance policy framework and support the first line to embed those standards within operational control frameworks; and
- Ensure Compliance training and communications guide and support people at all levels to consistently understand and meet Rothesay's expectations.

2. Provide decisive assurance
- Provide stakeholders with objective, evidence-based assurance over the design and operational effectiveness of business procedures, processes and controls, making clear and actionable recommendations where required;
- Own and operate key processes and controls that protect Rothesay from being used as a vehicle for financial crime and market abuse; and
- Oversee regulatory change projects and key business initiatives, ensuring these are implemented correctly and pass to business as usual effectively.

3. Deliver independent, commercially-focused advice
- Provide sound advice that supports Rothesay to develop and execute its business strategy and manage current and future regulatory risks and opportunities;
- Ensure pragmatic guidance and robust challenge to key business decisions and projects, supporting the business to innovate safely and enhance commercial and customer-facing propositions; and
- Be forward-looking and commercially engaged, with an analytical capability that supports Rothesay to be ahead of the regulatory curve and resilient to changes in its operating environment.

4. Escalate issues quickly and engage stakeholders transparently
- Investigate and escalate risks, themes and issues objectively and thoroughly, supporting stakeholders to take proportionate actions and tracking these through to completion;
- Ensure relevant, timely and accurate reporting and coherent management information that supports risk-based decisions; and
- Engage transparently with regulators, key stakeholders and policymakers, ensuring regulatory risks, themes and issues are managed effectively within Rothesay's Combined Assurance model.

An employee-facing Compliance Manual and policy framework sets Rothesay's standards and expectations as well as individuals' personal obligations to support a positive compliance culture at all levels of the business. Policies are reviewed and updated on an annual basis or as a result of regulatory change.

B. System of governance continued

B.5 Internal Audit function

Internal Audit is an independent third line assurance function whose primary role is to help the Board and Executive Management to protect the assets, reputation and sustainability of the Rothesay Group. Internal Audit does this by delivering a risk based programme of independent assurance activities, assessing whether all significant risks are identified and appropriately reported by Management and the Risk function to the Board and Executive Management; assessing whether they are adequately controlled; and by encouraging Executive Management to improve the effectiveness of governance, risk management and internal controls.

The audit methodologies and practices of Internal Audit seek to be consistent with the International Professional Practices Framework (international standards for the professional practice of internal auditing), the Chartered Institute of Internal Auditors (CIIA) 2021 guidance 'Effective Internal Audit in the Financial Services Sector' and their Code of Ethics. An external quality assessment of the function was undertaken in 2022 and concluded that "overall, we found that Rothesay's Internal Audit function generally conforms to the IIA Standards (no higher assessment for conformance to the IIA Standards exists)".

The function provides written assessments, identifying issues and management actions to senior management, the Executive and the Board. All reports are presented to and discussed at the Audit Committee. Audits with a "customer lens" are also tabled at the Customer Conduct Committee. The Chief Auditor's (CA) direct reporting line is to the Chair of the Audit Committee. On a day-to-day basis the CA reports jointly to the CEO.

Rothesay's Internal Audit Charter, which is reviewed annually, states that, to maintain the necessary independent and objective approach and judgement, Internal Audit activity will remain free from interference by any element of Executive Management, including matters of audit selection, scope, procedures, frequency, timing, or report opinion. This is monitored by the Audit Committee.

Individuals who undertake the internal audits have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgement. Internal Audit will avoid possible conflict of interest between audit responsibilities and any other responsibilities.

Neither the CA nor any Internal Audit staff perform any other controlled function including the Compliance, Risk Management and Actuarial functions. Rothesay's Internal Audit function is fully resourced with additional specialist resource contracted as required.

B.6 Actuarial function

The Chief Actuary reports to the CRO and also has responsibility for the oversight of insurance risk and internal model governance. The Chief Actuary and the wider actuarial function are responsible for a range of activities, including:

- Co-ordinating the calculation of technical provisions, including:
  - Ensuring the appropriateness of methodologies, models and assumptions;
  - Comparing the best estimates against experience;
  - Assessing the adequacy and quality of data used; and
  - Informing the Board of the reliability of the calculation.
- Opining on the underwriting policy and adequacy of reinsurance arrangements; and
- Contributing to the effective implementation of the risk management system, in particular to the modelling risk in respect of the ORSA and MCR/SCR calculations.

Each of these activities is undertaken on at least an annual basis. In addition to a number of direct reports, the Chief Actuary is supported by:

- The capital and actuarial assurance teams which report to the CFO; and
- The longevity team, which reports to the Head of Asset and Liability Management.

The additional responsibilities of the Chief Actuary do not create conflicts of interest.

B. System of governance continued

B.7 Outsourcing

With the exception of staff employed by Rothesay Asset Management North America LLC and Rothesay Asset Management Australia Pty Ltd, RPML employs all of Rothesay’s management and staff and provides services to the other companies in the Group.

Rothesay has chosen to outsource some of our operational functions and activities in order to take advantage of economies of scale and external expertise. Rothesay maintains oversight of these outsourced functions in line with our Vendor Management Policy. The following key functions and activities have been outsourced or partially outsourced:

- Pensions administration, including front line policyholder handling to Mercer Limited, Capita Pension Solutions Limited and WTW (Mercer's UK pension administration business transferred to Aptia UK Limited on 1 January 2024).
- Risk software and some IT provision to Goldman Sachs.
- Middle office operational activity (settlements and collateral management) to Northern Trust.
- UK payroll to Midland HR.
- International payroll to Vistra.
- Background checks for employees to First Advantage.

All of these providers have entities located within the UK or the EU (with the exception of the US and Australia payroll provider).

At the end of 2021, around 350,000 policyholders transferred from Prudential to Rothesay. During 2022 and early 2023, the administration of these policies was carried out by Diligenta, Prudential’s third party administrator. The successful transition of the administration of these policies to Capita took place in February 2023.

Rothesay has adopted a Vendor Management Policy, which is intended to establish a prudent Risk Management Framework in relation to the management of the outsourcing arrangements and ensure compliance with the relevant regulatory requirements. The policy covers the entire outsourcing life cycle, from identifying the need for outsourcing through relationship management and oversight to providing processes to effectively manage risk associated with outsourcing relationships.

B. System of governance continued

B.8 Any other information

B.8.1 PRA waivers and discretions

The table below provides a summary of the active waivers and discretions held by RLP as at 31 December 2023.

Date granted	Reference number	Permission
2 December 2015	2197307	Permission to apply a transitional deduction to our technical provisions.
7 November 2016	3106329	Permission to recalculate the transitional deduction as at 30 June 2016 to reflect the change in economic conditions between 10 March 2016 and 30 June 2016.
7 September 2018	4996708	Decision to classify £350m of loan notes issued by RLP in September 2018 as restricted Tier 1 capital.
3 December 2018	4973403	Approval to use the PIM for the calculation of the SCR.
19 December 2019	5274984	Permission to make changes to the PIM, in particular to include Dutch mortgages.
19 December 2019	5278094	Permission to apply a Matching Adjustment as per a revised application and addendum covering Dutch mortgages and other changes, replacing the 2015 approvals.
21 December 2020	2319	Requirement to produce an ORSA covering RLP and RL as a combined Group (previously 2199952 which expired).
4 February 2021	2469	Permission to recalculate the transitional deduction as at 31 December 2020 to reflect the change in economic conditions.
17 November 2021	3501	Decision to classify £450m of loan notes issued by RLP in October 2021 as restricted Tier 1 capital.
13 December 2021	3621	Permission to recalculate the transitional deduction as at 31 December 2021.
24 October 2022	5487	Permission to recalculate the transitional deduction as at 30 June 2022.
22 November 2022	5635	Renewal of the decision to allow the Group to produce a single Group-wide SFCR (previously 5246647 which expired).
20 April 2023	6139	Permission to apply a Matching Adjustment for the risk-free interest rate term structure.
26 April 2023	6316	Permission to recalculate the transitional deduction as at 31 December 2022 to reflect the change in economic conditions.
27 April 2023	6319	Approval for the Full Internal Model.
19 December 2023	7363	Permission to recalculate the transitional deduction as at 31 December 2023.

C. Risk profile

C. Risk profile

Rothesay is a purpose-built annuity provider whose insurance operations are materially within the United Kingdom. Our strategic approach is to de-risk our business in order to achieve attractive risk-adjusted returns. We aim to protect regulatory surplus and minimise balance sheet volatility by hedging longevity risk and adopting a cautious approach to investment. For further information in relation to Rothesay's risk exposures and concentration, please refer to the Rothesay Limited Annual Report and Accounts.

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

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

The management of risk is central to the success of the business. Every employee knows that they are responsible for the identification and management of risk. Rothesay's governance arrangements strengthen this principle by adding challenge, oversight and independent assurance from the second and third lines of defence.

An overview of the risks associated with the business, including an outline of how they are each mitigated, is provided in this section of the SFCR.

Changes in Rothesay's risk profile

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

Rothesay has continued its strategy of patient investment in a diverse range of assets. During 2023, we have continued to invest in UK lifetime mortgages and now hold a portfolio of £6.2bn (2022: £5.1bn). We also continue to fund Dutch residential mortgages and long-term, fixed rate mortgages in the UK. Although these types of mortgage are secured on residential property, the risk profiles of lifetime mortgages and fixed-for-term mortgages are quite different.

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

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

C. Risk profile continued

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

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

As a result of the increase in interest rates, many pension schemes have found themselves in position to move to buy-out much earlier than they would have anticipated. The pipeline of potential new business opportunities in 2024 and beyond is significant and includes a number of substantial transactions.

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

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

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

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

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

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

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

C. Risk profile continued

Emerging risks

Rothesay has identified a number of emerging risks that could impact the business over the medium to long-term. Geopolitical risk continues to be high across Europe and Asia, driven by changes in Government and evolving global relationships. Over the longer term there are risks relating to sustainability, including climate change and the way in which these could impact Rothesay's investments. The management of climate-related risks is discussed in more detail in the 2022 Climate report.

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

C.1 Insurance risk

Insurance risk is the risk of changes in the value of Rothesay's net position due to changes in the insurance contract liabilities. Insurance risk may occur either through changes in actual demographic experience or revised expectations of future experience. The main categories of insurance risk include the following:

- Demographic risk arises from current mortality or spouse/dependant experience being lighter than that assumed. The risk is hedged by external reinsurance.
- Longevity improvement risk represents the risk of future mortality rates improving at a faster rate than assumed. The risk is hedged by external reinsurance.
- Expense risk results from future expenses required to maintain the business being higher than expected. This risk is managed through budgeting and robust expense management.
- Data risk arises from the risk that the cost of correcting residual data errors exceeds the provisions held against this risk. This risk is managed through detailed due diligence, exclusion of known data issues and prudence in quantifying appropriate provisions.

The projection of annuity obligations used for pricing and reserving requires a number of actuarial assumptions to be made. Similar to other bulk annuity providers, the performance of Rothesay's business will primarily depend on the actual experience of mortality rates and longevity improvements. Systemic changes in mortality rates could arise, for example, from a cure for a major disease (e.g. cancer) being found in the near term.

Rothesay also needs to make a number of other assumptions, including the proportion of deferred and immediate annuitants that have a dependant eligible for contingent benefits, dependant's age and the proportion of deferred annuitants opting to take a proportion or all of their benefit at retirement (or before) as a lump sum.

Longevity and other demographic risks are mitigated through:

- Strict underwriting criteria and the use of reinsurance targeting a majority of insured lives. Assumptions used in the projections are determined using historic experience, rating models or reinsurance pricing. Given the nature of the larger bulk annuities that Rothesay writes, the assumptions used can generally be derived specifically from the population under consideration.
- All reinsurance contracts entered by Rothesay have been implemented through the use of unfunded longevity swaps where no initial premium outlay is required. 87% of longevity risk on an IFRS basis was hedged as at 31 December 2023 (2022: 89%).

Insurance risk also includes both expense risk, which is much less material for Rothesay, and data risk. Expenses are managed through close monitoring of expenditure and careful budgeting. Data risk arises from the risk that the cost of correcting residual data errors exceeds the provisions held against this risk. This risk is managed through detailed due diligence, exclusion of known data issues and prudence in quantifying appropriate provisions.

As at 31 December 2023, the required capital for underwriting risk pre-diversification, based on Rothesay's Internal Model (classified as underwriting risk), is £2,018m (2022: £1,025m based on Standard Formula). This increase is largely driven by the execution of £12.7bn of new deals over the year and the adoption of the full internal model. Please refer to QRT S.25.03. Information on risk exposures and concentration on an IFRS basis is included in notes E and F of the Rothesay Limited Annual Report and Accounts.

C. Risk profile continued

C.2 Market risk

Market risk is the risk of changes in the value of Rothesay's net financial position due to changes in market prices. Financial investments are accounted for at fair value and, therefore, fluctuate on a daily basis. Certain liabilities are also exposed to market risk. Categories of market risk include the following:

- Interest rate risk arises from discounting cash flow mismatches across all future dates. Profits and losses are generated through changes in the level, slope and curvature of interest rate curves. The risk is hedged by matching assets and liabilities and by using interest rate swaps. Consideration is given to Rothesay's IFRS, MCEV and solvency risk positions when determining the appropriate hedging strategy.
- Inflation rate risk results from mismatches in the index linkage of liabilities and assets. Profits and losses are generated through changes to the level, slope and curvature of inflation curves. The risk is hedged by matching assets and liabilities and by using inflation swaps. Consideration is given to Rothesay's IFRS, MCEV and solvency risk positions when determining the appropriate hedging strategy.
- Currency rate risk results from mismatches in the denomination of liabilities and assets. Profits and losses are generated due to changes in the level of foreign exchange rates. The risk is hedged using spot foreign exchange and cross-currency swaps.
- Property risk results from investments that are secured on commercial or residential properties. In some instances, this risk may arise from the potential impact of climate change on properties (including the need to improve the carbon efficiency of buildings). Profits and losses may be generated by material movements in spot or forward property prices. This risk is mitigated through strict underwriting criteria, aggregate risk monitoring, consideration of ESG risks and low loan-to-value limits. Where the property risk becomes more material then prudent allowance is made for this within the credit risk adjustment.

Rothesay manages market risk by diversifying exposures, controlling position sizes through limits and regular stress and scenario testing and establishing economic hedges in related securities, derivatives and insurance liabilities.

The tables below show sensitivities on an IFRS basis to movements in interest rates and inflation. The values for 2022 have been restated to allow for IFRS 17.

2023	Change in assumptions	Increase/ (Decrease) in PBT		Impact on equity	
		Gross £m	Net £m	Gross £m	Net £m
Interest rate	**+100bps**	**(931)**	**(853)**	**(712)**	**(653)**
Interest rate	**-100bps**	**1,158**	**1,097**	**886**	**839**
Inflation	**+100bps**	**562**	**555**	**430**	**424**
Inflation	**-100bps**	**(431)**	**(419)**	**(330)**	**(320)**

2022	Change in assumptions	Increase/ (Decrease) in PBT		Impact on equity	
		Gross £m	Net £m	Gross £m	Net £m
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)

There was no change in the method used for deriving sensitivity information and significant variables during the year other than the noted move to IFRS 17.

C. Risk profile continued

As at 31 December 2023 the required capital for market risk (including spread risk and concentration risk) pre-diversification is £2,580m (2022: £2,589m). Capital requirements for all market risk components are now calculated using the full internal model. Please refer to QRT S.25.03 and Section E.4.

C.2.1 Concentration risk

Rothesay mitigates concentration risk by investing in a diversified portfolio of assets and, where positions are more concentrated, seeking appropriate collateral or other forms of security. Following the approval of Rothesay's internal model, this is now modelled within the FIM.

C.2.2 Prudent person principle

In line with the prudent person principle, and embedded within the investment policy, before investments are made consideration is given to a number of risk indicators to ensure that investments:

- Are of a suitable quality and security to meet policyholder liabilities;
- Are Matching Adjustment eligible (where relevant);
- The risks associated with the investment are well understood, can be modelled in our risk systems and are appropriately captured in our capital models;
- Can be suitably valued. Where relevant, valuation uncertainty for new investments is considered;
- Appropriately match liabilities by duration, currency and index-linkage;
- Take account of the liquidity needs of Rothesay;
- Meet concentration limits for individual assets and sector; and
- Appropriate resources are in place to manage the investment over time.

By managing investments in-house, Rothesay is able to consider the impact of new investments on a list of defined risk indicators, including stress tests and the financial impact of Environmental, Social and Governance factors, before investments are made. This assessment, along with consideration of the prudent person principle, is captured within the investment memos that are presented to the Executive Risk Committee as part of the approval process for new issuers or asset classes.

C.3 Credit risk

Credit risk represents the potential for loss, or solvency deterioration, due to the default or deterioration in credit quality of a counterparty or an investment we hold. In some instances this risk may arise as a result of ESG-linked factors including climate change, for example the risk of stranded assets, potential litigation exposure or the impact of climate change on a counterparty's assets and/or liabilities. Credit risk also arises from cash placed with banks or money market funds, collateralised financing transactions (i.e. resale and repurchase agreements) and receivables from third parties.

Rothesay's investments include government debt, government guaranteed debt, supranational debt, corporate debt, secured debt and secured loans. Therefore, Rothesay is exposed to varying degrees of credit risk. Rothesay also enters into longevity reinsurance (unfunded swaps) and over-the-counter (OTC) derivative transactions (credit, interest and inflation swaps) to manage market and insurance risks. Rothesay is therefore exposed to the credit risk of these counterparties. Rothesay's strategy seeks to mitigate credit risk in a number of ways:

- Investing in low-risk asset classes such as government guaranteed and other highly rated bonds;
- Investing in asset classes with security and other structural mitigation which protects Rothesay against loss in the event of a borrower default, including over-collateralisation;
- When investing in unsecured bonds such as certain corporate bonds, focusing on lower risk sectors, higher ratings and diversifying single name exposures;
- Derivative contracts are subject to margining requirements to ensure changes in their fair value are appropriately collateralised. Where there is residual gap risk, the value of each contract is adjusted to reflect their credit riskiness;
- Diversification of assets and counterparties;
- Purchase of credit protection;
- Consideration of the potential ESG risks including climate change; and
- Active monitoring of assets and counterparties, including for downgrade risk.

C. Risk profile continued

Investments include debt that has been issued from special purpose vehicles (SPVs). The purpose of such SPVs is to ring-fence collateral to reduce losses in the event that the counterparty defaults.

The following table shows the impact of the netting arrangements resulting in the derivative assets and liabilities presented net in the balance sheet, including balances which do not qualify for netting under IAS 32.

Other than a small number of residential mortgages, as of the current and prior year end there were no financial assets past due.

	2023						
	Effects of offsetting			Related amounts not offset			
	Gross amounts £m	Amounts offset £m	Net amounts presented in the statement of financial position £m	Netting under master netting agreements £m	Cash collateral £m	Security collateral and charges £m	Net credit exposures £m
Derivative assets	**33,781**	**(164)**	**33,617**	**(29,340)**	**(2,436)**	**(1,823)**	**18**
Collateralised agreements and financing	**63**	**—**	**63**	**—**	**—**	**(63)**	**—**
Total	**33,844**	**(164)**	**33,680**	**(29,340)**	**(2,436)**	**(1,886)**	**18**
Derivative liabilities	**(33,157)**	**164**	**(32,993)**	**29,340**	**761**	**2,892**	**—**
Collateralised financing agreements	**(2,969)**	**—**	**(2,969)**	**—**	**—**	**2,953**	**(16)**
Total	**(36,126)**	**164**	**(35,962)**	**29,340**	**761**	**5,845**	**(16)**

	2022						
	Effects of offsetting			Related amounts not offset			
	Gross amounts £m	Amounts offset £m	Net amounts presented in the statement of financial position £m	Netting under master netting agreements £m	Cash collateral £m	Security collateral and charges £m	Net credit exposures £m
Derivative assets	37,810	—	37,810	(33,633)	(2,399)	(1,738)	40
Collateralised agreements and financing	430	—	430	—	—	(430)	—
Total	38,240	—	38,240	(33,633)	(2,399)	(2,168)	40
Derivative liabilities	(37,799)	—	(37,799)	33,633	1,346	2,793	(27)
Collateralised financing agreements	(3,628)	—	(3,628)	—	—	3,628	—
Total	(41,427)	—	(41,427)	33,633	1,346	6,421	(27)

Credit default swaps have been purchased to protect Rothesay from the default of some of its counterparties. The table above does not reflect the protection provided. Rothesay calls margins, receivable in transferable securities, against this exposure and other derivative positions. Bilateral derivative transactions have benefited from additional collateral security in the form of Initial Margin since 1 September 2021.

In a distressed situation the value of collateral may vary depending on credit quality and interest rates. The effectiveness of collateral as a credit risk mitigant will depend on the operational expertise of the collateral manager and the ability to seize, value and sell the collateral in a distressed scenario.

Rothesay has the right of offset for certain financial assets and liabilities. Netting under master netting agreements of £29,340m (2022: £33,633m) reflects the offsetting of derivative assets with liabilities for which

C. Risk profile continued

Rothesay has a right to set off in the event of default. Cash and security collateral have been offset to the extent there are credit exposures on the balance sheet.

Note that capital for the credit risk associated with bonds, loans and securitisations is included in the market risk sub-module under Solvency II (see Section C.2).

As at 31 December 2023, the required capital for counterparty default risk pre-diversification is £320m (2022: £252m). The capital in relation to counterparty risk has been calculated using the FIM. Please refer to QRT S.25.03 and Section E.4. Information on risk exposures and concentration on an IFRS basis are included in note F of the Annual Report and Accounts.

C.4 Liquidity risk

Liquidity risk arises where timing differences and/or uncertainties occur between cash inflows and cash outflows. The objective of liquidity management is to ensure that Rothesay is capable of honouring all cash flow commitments on both an ongoing basis and in highly stressed scenarios, without incurring significant cost or business disruption.

Rothesay's liquidity policy is designed to ensure the availability of sufficient funds to meet cash flow requirements on a timely basis via:
- Maintenance of substantial excess liquidity. Rothesay seeks to enter into long-term, illiquid investments that match its liabilities in order to maximise the value of the illiquidity premium. To mitigate residual liquidity risk, Rothesay maintains substantial excess liquidity to meet a broad range of potential cash outflows in a stressed environment including collateral outflows and financing obligations.
- Entering into repurchase agreements and derivative and reinsurance agreements that allow Rothesay to post corporate bonds as collateral rather than just cash and gilts.
- Conservative asset/liability management. Rothesay seeks to maintain funding sources that are sufficiently long-term in order to withstand a prolonged or severe liquidity-stressed environment. Only the most liquid assets held on Rothesay's balance sheet are assumed to be available to meet potential stressed liquidity requirements.
- Maintenance of a comprehensive liquidity contingency plan including having contingent liquidity facilities executed which can be drawn if required to raise cash.

The liquidity management framework is designed to ensure that a prudent level of liquidity is maintained on a spot basis, but also under stressed market conditions, at which time liquidity may leave Rothesay through collateral outflows and ongoing business obligations such as expenses and undrawn investments. A comprehensive analysis of all sources of liquidity risk to which the Group is exposed is maintained. Based upon this analysis, an extensive suite of stresses is considered as part of the liquidity management framework, including onerous market shocks, against which limits are applied by the Board.

Management is responsible and accountable for managing liquidity risks within prescribed limits that are set by the Board and are overseen by the Board Risk Committee. The second line Risk function ensures that an appropriate framework is in place for assessing, monitoring and managing liquidity risk. Liquidity is managed for Rothesay as a whole, in addition to at a Solvency II fund level. Risks are monitored and controlled through strong oversight, and independent control and support functions across the business.

Expected profits included in future premiums (EPIFP) amounted to £623m (2022: £578m). The majority of future premiums payable to Rothesay are as a result of unfunded longevity swap contracts we have written. In the event that the future premiums due under a contract were not paid then the policyholder would be in breach of contract as the insured pension schemes do not have a unilateral right to stop paying premiums. As such the profits expected from those premiums are valued as EPIFP.

No capital is held to meet liquidity risk as capital is not an appropriate mitigant for liquidity risk.

Please refer to QRT S.23. Information on risk exposures and concentration on an IFRS basis is included in note F of the Annual Report and Accounts.

C. Risk profile continued

C.5 Operational risk

Operational risk encompasses a wide range of non-financial risks which arise from inadequate or failed processes, personnel, or systems, or from external events. For example, operational risk includes conduct risk, model risk, vendor risk, project risk and cyber risk. Operational risk events can cause financial losses, reputational damage, adverse regulatory action, or customer detriment (or a combination of these).

Rothesay manages operational risk through the development and maintenance of an effective Risk Management Framework which ensures that a comprehensive internal control environment is in place. This is supported by regular risk and control self-assessments coordinated, challenged and reported by the second line, which allow risk levels to be measured and control enhancements to be developed in line with Rothesay's risk appetite.

Rothesay also uses scenario analysis to explore key areas of operational risk, ensuring that the implications of adverse operational risk events crystallising are well understood and that, where appropriate, additional controls or contingency plans are introduced to improve operational resilience.

Rothesay's Operational Resilience Framework is used to monitor and stress test the Group's ability to continue to deliver important services to its policyholders and other key stakeholders in the event of severe operational disruption. The framework covers internal resources (e.g. systems, teams, data, etc.) and those of the Group's third parties that support delivery of these services. Rothesay's business continuity management system which supports our operational resilience is ISO 22301 accredited.

Rothesay has important outsourcing arrangements in place, which are subject to extensive due diligence at the point of entering into them, but also to ongoing review, with oversight provided by the Business Controls Committee. Oversight of these arrangements considers the information security risk that Rothesay is exposed to, the performance of the third party with respect to service level agreements, and other relevant information (e.g. their ongoing creditworthiness, and where relevant, their readiness to accommodate Rothesay's growth). Strategic projects are monitored by Rothesay's Change Management function and relevant committees and are required to operate according to our project management framework. The CCC and ECC also oversee the ongoing review of the Third Party Administrators.

Rothesay insures the pensions of over 930,000 individual policyholders and is therefore exposed to conduct risk associated with unfair treatment of customers. Rothesay is also exposed to reputational risk both in relation to the way in which we treat customers and the way in which we undertake our other activities. Conduct risk is managed by the Compliance function and, with respect to customer conduct, overseen by the Customer Conduct Committee.

Rothesay employs financial models in our day-to-day activities to inform and manage the business. Material errors in these models could expose Rothesay to losses and/or reputational damage. Model risk is managed via a model control framework that identifies, validates and monitors models that are material to Rothesay. To support this framework, Rothesay has a dedicated second line Model Risk Management team within the Risk function.

Rothesay seeks to mitigate cyber risk through robust processes and controls including threat intelligence, data protection measures, penetration testing, incident response plans, and staff training. Recognising the importance of information security, Rothesay maintains ISO 27001 accreditation.

Rothesay seeks to mitigate taxation and financial reporting risk by focusing on compliance with relevant tax laws and financial reporting regulations. Rothesay will not undertake tax planning that is contrived or artificial and Rothesay seeks to have an open, fair and proactive relationship with tax authorities at all times.

As at 31 December 2023, the required capital for operational risk based on the internal model is £568m (2022: £172m based on Standard Formula). Please refer to QRT S.25.03.

C. Risk profile continued

C.6 Other material risks

C.6.1 Climate change risk

Rothesay's assets are exposed to the potential impact of climate change. Such risks include:

- Physical risks such as increasing frequency and severity of flooding;
- Transition risks which can arise from the process of adjustment towards a low-carbon economy; and
- Litigation risks such as people or businesses seeking compensation for losses from physical or transition risks.

We fully support the Paris Climate Accord and the path towards carbon-neutrality. As a significant investor in the UK and other developed economies, we believe that an important element of managing climate risk in our portfolio is to be an advocate for climate change management with our counterparties, by encouraging them to define and deliver on tangible emissions targets. We are also committed to providing increasingly clear and complete reporting on the climate change risks within our portfolio, to provide transparency for our investors and policyholders.

In line with this, we include disclosures consistent with the Task Force on Climate-related Financial Disclosures guidance in our Annual Report. We also published our annual Climate Report in October 2023, which sets out, amongst other things, our commitments and targets relating to climate risk and carbon emissions, how we manage climate risk, Rothesay's direct carbon emissions, and the carbon intensity of our investment portfolio.

Climate-related risks are incorporated into Rothesay's Risk Management Framework. The in-house investment and pricing teams assess climate-related risk (physical and transitional) as part of the transaction approval process and this assessment is reviewed and challenged by the second line Risk function.

We have assessed our investment portfolio to identify the sectors and asset types with the greatest exposure to climate risk, and conduct counterparty-level reviews for the highest priority sectors. These reviews are used to feed into decisions around investment/divestment, counterparty engagement, and risk limit calibration. In addition, for our property-backed assets we have conducted studies focusing on assessing vulnerability to specific climate change linked natural disasters, for example flood risk for our UK and Dutch mortgage portfolios.

Building on the work conducted for the 2020 PRA insurance stress testing exercise climate change scenarios, Rothesay is developing its own climate change stress testing capabilities, to explore, understand and model how both physical risks and the transition to a low carbon economy could affect the ratings and value of our asset portfolio over time.

C.6.2 Other risks

Rothesay is exposed to the risk that a change in the regulatory, legal or political environment may have adverse consequences on Rothesay's business model, operations and financial performance. Rothesay is subject to UK regulation, and in particular Rothesay is required to comply with capital adequacy requirements.

Rothesay continues to actively monitor the political landscape. Where appropriate, Rothesay engages with Government or responds to consultations to ensure our interests are protected for the benefit of our stakeholders. Strategic decisions and individual asset underwrites take into account the overall political landscape.

Rothesay seeks to have a regular dialogue with regulators in order to ensure compliance, as well as the ability to react quickly to any unanticipated developments. Rothesay seeks to have an open and transparent relationship with regulators at all times.

There are continued political risks globally, as well as ongoing regulatory change in the UK. The Government's reform of the leasehold market could have a material adverse impact on Rothesay's loans secured on ground rents.

C. Risk profile continued

C.7 Any other information

C.7.1 Solvency II sensitivities

The table below provides a range of sensitivities as at 31 December 2023 and comparatives as at 31 December 2022. The results for 2023 use the FIM, while the results for 2022 use the PIM. Where applicable, allowance has been made for the impact of recalculating transitional solvency relief. To better reflect the long-term position, sensitivities have been calculated against available Own Funds rather than eligible Own Funds. The sensitivities show that Rothesay can withstand a wide range of stresses and that Rothesay is particularly sensitive to movements in interest rates. In order to mitigate this impact, Rothesay has implemented a dynamic capital management framework which seeks to protect both the solvency position and the embedded value of the business. In the results below, interest rates are assumed to fall progressively and hedging is adjusted accordingly:

2023	Change in assumptions	Impact on available Own Funds £m	Impact on SCR £m	Impact on RL coverage ratio %
Annuitant mortality	**+5% qx**	**196**	**(81)**	**14%**
Annuitant mortality	**-5% qx**	**(206)**	**83**	**(14%)**
Interest rate	**+100bps**	**(328)**	**(339)**	**23%**
Interest rate	**-100bps**	**410**	**490**	**(27%)**
Inflation	**+100bps**	**46**	**259**	**(20%)**
Inflation	**-100bps**	**42**	**(164)**	**17%**
Credit spread widening (all non-government guaranteed assets)	**+100bps**	**(178)**	**(112)**	**5%**
Property value	**-10%**	**(90)**	**79**	**(10%)**
Expenses	**+10%**	**(74)**	**29**	**(5%)**

2022	Change in assumptions	Impact on Available Own Funds £m	Impact on SCR £m	Impact on RL coverage ratio %
Annuitant mortality	+5% qx	136	(32)	7%
Annuitant mortality	-5% qx	(142)	31	(7%)
Interest rate	+100bps	(83)	(337)	27%
Interest rate	-100bps	107	419	(27%)
Inflation	+100bps	60	122	(8%)
Inflation	-100bps	2	(108)	9%
Credit spread widening (all non-government guaranteed assets)	+100bps	(239)	(173)	7%
Property value	-10%	(67)	106	(10%)
Expenses	+10%	(62)	15	(3%)

The sensitivities shown capture non-linearity effects, which may be significant following large market movements.

D. Valuation for solvency purposes

The significant classes of assets shown on Rothesay's Solvency II balance sheet, the Solvency II values and values for the corresponding assets shown in Rothesay's financial statements are summarised in the table below. The numbering of the line items refers to the sections below. Please note there may be rounding differences between the QRTs and the numbers below.

	RL – Reconciliation IFRS balance sheet to SII balance sheet 2023	IFRS £m	Adjustments £m	Solvency II £m
	Collective investment schemes	4,395	20	4,415
	Government, sub-sovereign, agency obligations, corporate bonds and other corporate debt	48,094	316	48,410
	Derivative assets	33,617	164	33,781
	Collateralised agreements and financing	63	1	64
	Loans secured on property	6,447	278	6,725
	Property (Other than for own use)	—	196	196
	Lifetime mortgages	6,212	—	6,212
	Certificates of deposit	140	—	140
D1.1	**Total investments**	98,968	975	99,943
D1.3	Property, plant and equipment	27	(27)	—
D3.5	Lease - right-of-use asset	57	—	57
D1.4	Accrued interest and prepayments	870	(677)	193
D1.4	Receivables	2,013	351	2,364
D1.5	Cash and cash equivalents	267	—	267
D2.1	Reinsurance contract assets	216	(3,520)	(3,304)
D3.3	Deferred tax asset	658	(658)	—
D1.7	Assets held for sale	127	(127)	—
	Own shares (held directly)	—	57	57
	Total assets	103,203	(3,626)	99,577
D1.1	Derivative and collateralised financing liabilities	(35,962)	(217)	(36,179)
D2.1	Insurance contract liabilities	(54,630)	5,652	(48,978)
D2.1	Reinsurance contract liabilities	(461)	461	—
D3.1	Payables	(5,319)	(107)	(5,426)
D3.5	Leasehold liabilities	(72)	—	(72)
D3.2	Borrowings	(2,248)	(596)	(2,844)
D3.3	Deferred tax liabilities	—	(80)	(80)
D3.4	Accruals	(160)	160	—
	Total liabilities	(98,852)	5,273	(93,579)
	Net assets	4,351	1,647	5,998

D. Valuation for solvency purposes continued

	RL – Reconciliation IFRS balance sheet to SII balance sheet Restated 2022	IFRS £m	Adjustments £m	Solvency II £m
	Collective investment schemes	4,586	11	4,597
	Government, sub-sovereign, agency obligations, corporate bonds and other corporate debt	36,930	414	37,344
	Derivative assets	37,810	—	37,810
	Collateralised agreements and financing	430	1	431
	Loans secured on property	5,957	132	6,089
	Lifetime mortgages	5,086	—	5,086
	Certificates of deposit	130	—	130
D1.1	**Total investments**	90,929	558	91,487
D1.3	Property, plant and equipment	18	(18)	—
D3.5	Lease - right-of-use asset	31	—	31
D1.4	Accrued interest and prepayments	806	(558)	248
D1.4	Receivables	2,149	204	2,353
D1.5	Cash and cash equivalents	270	—	270
D2.1	Reinsurance contract assets	54	(2,800)	(2,746)
D3.3	Deferred tax asset	713	(713)	—
	Own shares (held directly)	—	63	63
	Total assets	94,970	(3,264)	91,706
D1.1	Derivative, government, sub-sovereign, agency obligations and collateralised financing liabilities	(41,737)	(37)	(41,774)
D2.1	Insurance contract liabilities	(40,971)	4,767	(36,204)
D2.1	Reinsurance contract liabilities	(848)	848	—
D3.1	Payables	(5,451)	(60)	(5,511)
D3.5	Leasehold liabilities	(44)	—	(44)
D3.2	Borrowings	(1,764)	(433)	(2,197)
D3.3	Deferred tax liabilities	—	(34)	(34)
D3.4	Accruals	(98)	98	—
	Total liabilities	(90,913)	5,149	(85,764)
	Net assets	4,057	1,885	5,942

D. Valuation for solvency purposes continued

The material classes of assets shown on RLP's Solvency II balance sheet, the Solvency II values and values for the corresponding assets shown in RLP's financial statements are summarised in the table below. The numbering of the line items refers to the sections below. Please note there may be rounding differences between the QRTs and the numbers below.

	RLP – Reconciliation IFRS balance sheet to SII balance sheet 2023	IFRS £m	Adjustments £m	Solvency II £m
	Collective investment schemes	4,213	19	4,232
	Government, sub-sovereign, agency obligations, corporate bonds and other corporate debt	48,094	316	48,410
	Derivative assets	33,617	164	33,781
	Collateralised agreements and financing	63	1	64
	Loans secured on property	6,447	313	6,760
	Property (other than for own use)	—	196	196
	Lifetime mortgages	6,212	182	6,394
	Certificates of deposit	140	—	140
D1.1	**Total investments**	98,786	1,191	99,977
D1.2	Investments in subsidiaries	13	—	13
D1.3	Property, plant and equipment	27	(27)	—
D3.3	Deferred tax asset	637	(637)	—
D3.5	Lease - right-of-use asset	53	—	53
D1.4	Accrued interest and prepayments	869	(676)	193
D1.4	Receivables	2,330	136	2,466
D1.5	Cash and cash equivalents	183	—	183
D1.7	Assets held for sale	127	(127)	—
D2.1	Reinsurance contract assets	216	(3,520)	(3,304)
	Total assets	103,241	(3,660)	99,581
D1.1	Derivative, government, sub-sovereign, agency obligations and collateralised financing liabilities	(35,962)	(218)	(36,180)
D2.1	Insurance contract liabilities	(54,630)	5,652	(48,978)
D2.1	Reinsurance contract liabilities	(461)	461	—
D3.1	Payables	(5,275)	(102)	(5,377)
D3.5	Leasehold liabilities	(68)	—	(68)
D3.2	Borrowings	(2,248)	(596)	(2,844)
D3.3	Deferred tax liabilities	—	(101)	(101)
D3.4	Accruals	(156)	156	—
	Total liabilities	(98,800)	5,252	(93,548)
	Net assets	4,441	1,592	6,033

D. Valuation for solvency purposes continued

	RLP – Reconciliation IFRS balance sheet to SII balance sheet Restated 2022	IFRS £m	Adjustments £m	Solvency II £m
	Collective investment schemes	4,377	11	4,388
	Government, sub-sovereign, agency obligations, corporate bonds and other corporate debt	36,930	414	37,344
	Derivative assets	37,810	—	37,810
	Collateralised agreements and financing	430	1	431
	Loans secured on property	5,957	158	6,115
	Lifetime mortgages	5,086	217	5,303
	Certificates of deposit	130	—	130
D1.1	**Total investments**	90,720	801	91,521
D1.2	Investments in subsidiaries	13	—	13
D1.3	Property, plant and equipment	18	(18)	—
D3.5	Lease - right-of-use asset	27	—	27
D1.4	Accrued interest and prepayments	806	(558)	248
D1.4	Receivables	2,472	(39)	2,433
D.3.3	Deferred tax assets	1,040	(1,040)	—
D1.5	Cash and cash equivalents	195	—	195
D2.1	Reinsurance contract assets	54	(2,800)	(2,746)
	Total assets	95,345	(3,654)	91,691
D1.1	Derivative and collateralised financing liabilities	(41,737)	(37)	(41,774)
D2.1	Insurance contract liabilities	(40,971)	4,767	(36,204)
D2.1	Reinsurance contract liabilities	(848)	848	—
D3.1	Payables	(5,749)	280	(5,469)
D3.5	Leasehold liabilities	(39)	—	(39)
D3.2	Borrowings	(1,764)	(433)	(2,197)
D3.3	Deferred tax liabilities	—	(45)	(45)
D3.4	Accruals	(95)	95	—
	Total liabilities	(91,203)	5,475	(85,728)
	Net assets	4,142	1,821	5,963

D. Valuation for solvency purposes continued

D.1 Valuation of assets and financial liabilities

Please refer to QRT S.02.01. Except where otherwise noted, the narrative below applies to both RLP and RL. There are no measurement differences in relation to assets and financial liabilities between IFRS and Solvency II, except for property, plant and equipment, reinsurance balances, borrowings and deferred tax. There are presentational differences, for example under Solvency II financial assets are presented including accrued interest but under IFRS accrued interest is disclosed in accrued interest and prepayments.

Details of our IFRS accounting policies can be found in the notes to the Annual Report and Accounts.

D.1.1 Financial investments and financial liabilities

Valuation of financial investments is based on fair value consistent with Rothesay's accounting policies. The fair value of a financial instrument is the amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. the exit price. Fair value measurements do not include transaction costs.

As noted during prior years, a number of portfolios of lifetime mortgages have been transferred from RLP to LTMF and a series of notes issued to the Matching and Non-Matching Adjustment funds of RLP. During 2023, a further £0.6bn of loans were transferred from RLP to LTMF. During 2018, loans secured on ground rents were transferred to RMA1 and notes issued to RLP. No further transfers have since been made. During prior years, €1.0bn of Dutch mortgage loans were transferred from RLP to RMA3 and a series of notes issued. During 2023, a further €1.0bn of Dutch mortgages loans were transferred from RLP to RMA3 and a series of notes issued.

Under IFRS, the notes do not appear on the balance sheet of either RL or RLP. This is also the case for RL under Solvency II. However, under Solvency II, the notes are shown on the RLP balance sheet. The notes issued by LTMF are included in mortgages and the notes issued by RMA1 and RMA3 are considered to be loans secured on property. As a result, the restructuring of RMA1 has no impact on the breakdown of financial investments. However, the value of the notes issued by LTMF and RMA3 includes cash balances which under IFRS are included in receivables. These balances at year end 2023 are £182m and £35m respectively (2022: £217m and £27m) so for RLP this has resulted in a reduction in receivables and a corresponding increase in the value of mortgages and loans secured on property.

For the purposes of the reconciliation between IFRS and Solvency II, the adjustment to loans secured on property includes an uncollateralised corporate loan with market value of £76m, which has been reclassified from corporate bonds and other corporate debt to align with Solvency II classifications (2022: £26m).

There is no difference in the fair value of our financial liabilities between the IFRS valuation and the Solvency II valuation apart from the accrued interest presentational difference explained above.

Further details on Rothesay's accounting policy for the valuation of financial investments and liabilities can be found in the Annual Report and Accounts.

D. Valuation for solvency purposes continued

D.1.2 Investment in subsidiaries
Investments in subsidiaries under IFRS are valued at cost less provision for impairment and under Solvency II are valued at the underlying value of the assets and liabilities.

For the purposes of calculating Rothesay solvency all of the subsidiaries' assets and liabilities are fully consolidated in Rothesay's Own Funds (excluding Rothesay Foundation) and the SCR is calculated on consolidated data.

D.1.3 Property, plant and equipment
The IFRS valuation of Rothesay's property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Under Solvency II, property, plant and equipment should be valued on a basis that reflects their fair value. We have taken the prudent approach of valuing property, plant and equipment at nil on a Solvency II basis and therefore treating the IFRS valuation as inadmissible.

D.1.4 Accrued interest, prepayments and receivables
Accrued interest and prepayments are carried at amortised cost for IFRS purposes. Rothesay considers there are no material differences between an amortised cost and mark-to-market valuation for these receivables and therefore there are no differences between the IFRS and Solvency II valuation.

There are, however, presentational differences due to accrued interest being included within financial investments on a Solvency II basis and excluded on an IFRS basis (except in relation to lifetime mortgages). Other valuation differences are predominantly due to the treatment of deferred premiums; under IFRS 17 these are netted down in insurance contract liabilities, whereas Solvency II includes deferred premium as a receivable asset.

D.1.5 Cash and cash equivalents
Cash and cash equivalents are recognised as assets at their fair value in the IFRS financial statements. This is generally their full nominal value and the amount due on repayment for redemption. Therefore, there are no differences on an IFRS and Solvency II basis.

D.1.6 Goodwill and intangible assets
Rothesay has no goodwill assets or any intangible assets on our Solvency II balance sheet.

D.1.7 Assets held for sale
Assets held for sale include:

- Investment properties, which include residential properties and a hotel under short-term lease; and
- Finance lease receivables which include long-term leases of commercial ground rent properties.

Under IFRS non-current assets are classified as held for sale if it is highly probable that their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for financial assets and investment property that are carried at fair value, which are specifically exempt from this requirement. Impairment losses on initial classification and subsequent gains and losses on remeasurement are recognised in profit or loss. Once classified as held for sale, investment properties are not depreciated and other financial investments and finance lease receivables are not amortised.

There is no difference in valuation on a Solvency II basis but the assets held for sale are reclassed as Property (other than for own use) in the QRT.

D. Valuation for solvency purposes continued

D.2 Technical provisions

Please refer to QRT S.12.01.
Technical provisions are the sum of a best estimate of liabilities allowing for reinsurance inwards and a risk margin. As part of the transitional arrangements in relation to the introduction of Solvency II, Rothesay is permitted to take credit for transitional solvency relief which acts as a deduction from the technical provisions. The table below shows the technical provisions of Rothesay. The transitional solvency relief shown for 31 December 2023 allows for the impact of recalculation on that date and for amortisation of 7/16ths of the allowance (2022: 6/16ths of the allowance):

	2023 £m	2022 £m
Gross best estimate liabilities	**48,555**	35,498
Risk margin (unaudited)	**645**	1,223
Transitional solvency relief (gross of tax impact) (unaudited)	**(222)**	(518)
Insurance contract liabilities	**48,978**	36,203
Reinsurance liabilities	**3,304**	2,746
Net technical provisions	**52,282**	38,949

Net technical provisions increased from £38.9bn as at 31 December 2022 to £52.3bn as at 31 December 2023 largely as a result of the execution of £12.7bn of new business and the approval of the FIM. The reduction in the risk margin (net of transitional solvency relief) reflects the impact of the Solvency II reforms.

D.2.1 Best estimate and reinsurance liabilities

Best estimate liabilities (BEL) are calculated by discounting the projected cash flows based on our best estimate assumptions with regard to future demographic experience. Cash flows include benefits and claims, future contractual premiums and expenses. The BEL is calculated gross of reinsurance, although the cash flow projections include reinsurance-related cash flows in order to allow the reinsurance liabilities to be separately calculated.

Reinsurance liabilities are shown as negative assets under Solvency II. The value of reinsurance is negative because, under best estimate assumptions, Rothesay expects to pay reinsurance fees to the reinsurers. However, the solvency position of Rothesay benefits from reinsurance as the use of reinsurance leads to reductions in the SCR and in the risk margin.

No allowance for future management action is made in the valuation of technical provisions.

D. Valuation for solvency purposes continued

Mortality assumptions

Mortality bases have been determined separately for each insurance contract. The resulting assumptions are equivalent to using the base mortality and improvement assumptions set out in the table below:

	2023		2022	
	Pensions originated	Insurance originated	Pensions originated	Insurance originated
Males	**105.9% S3PMA**	**101.1% S3PMA**	105.7% S3PMA	102.1% S3PMA
Females	**105.9% S3PFA**	**101.1% S3PFA**	105.7% S3PFA	102.1% S3PFA

	Future mortality improvements	
	2023	2022
Males	**CMI_2022*_M[1.7%; Sκ=7.4]**	CMI_2021*_M[1.7%; Sκ=7.5]
Females	**CMI_2022*_F[1.7%; Sκ=7.4]**	CMI_2021*_F[1.7%; Sκ=7.5]

*Calibration ages 20-90

For pension scheme originated business, ultimate mortality has been used in all cases. For insurance originated business, the stated base mortality basis incorporates the effect of selection adjustments for relevant policies.

Recent mortality experience is analysed annually for each pension scheme and for insurance originated business. The last review was carried out during 2023. The best estimate base mortality assumptions used in the valuation are based on this actual mortality experience. Mortality experience has been compared to expected levels with allowance for population level experience, hence heavy experience due to the COVID-19 pandemic has not been projected indefinitely. Mortality assumptions are generally set with reference to a Rothesay-specific suite of mortality tables. For the purpose of our reporting disclosures, these have been expressed as a single adjustment equivalent to the CMI S3 series of mortality tables drawn up by the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries. The S3 tables are based on industry-wide experience. For the S3 tables, past mortality improvements are applied assuming the base mortality rates are as at 2013.

The changes to the single equivalent rates over 2023 reflect the inclusion of new business, differences from expected mortality in recent years and the impact of updating the mortality improvements used to roll the base tables forward to the current date.

Mortality improvements used to roll base tables forward to the current date use an advanced calibration of the CMI 2022 model with limited period smoothing and including 2020 to 2022 experience in order to represent realised population mortality improvements. This is allowed for in the base table and mortality improvement equivalents shown in the preceding tables.

The changes to the demographic assumptions led to an increase in Own Funds of £91m, including recalculation of transitional solvency relief.

D. Valuation for solvency purposes continued

Discount rate

The discount rate used to discount the cash flows for the purpose of calculating the technical provisions is the Solvency II basic risk-free term structure.

Firms with illiquid liabilities such as annuity business can discount these illiquid liabilities using the risk-free rate plus the Matching Adjustment (if approved by the PRA). The Matching Adjustment is broadly equivalent to the illiquidity premium that can be earned on the illiquid assets held to back illiquid liabilities. Rothesay applies the Matching Adjustment in calculating the BEL for most of our single premium insurance business. Liabilities not covered by the Matching Adjustment include regular premium longevity swap business and single premium annuities with guarantees that prevent Matching Adjustment eligibility. Ceded reinsurance liabilities are also discounted using the basic risk-free rate with no adjustment.

The assets held in the Matching Adjustment fund have fixed cash flows and predominantly consist of assets included in Bonds (Government and Corporate Bonds) and Other Loans and Mortgages categories on QRT reference S.02.01.

As at 31 December 2023, the Matching Adjustment was approximately equal to 117 basis points (2022: 155bps). The decrease in Matching Adjustment has arisen from the change in the mix of assets used to back the liabilities in the Matching Adjustment fund, along with changes in market conditions. Use of the Matching Adjustment had the impact of reducing the best estimate liabilities for the business in the Matching Adjustment fund by around 13% (2022: 15%).

Losing Matching Adjustment approval is a very remote risk for the business as we have appropriate controls in place to ensure ongoing Matching Adjustment compliance and have regular dialogue with the PRA about our approach to matching. However, insurers using the Matching Adjustment are required to disclose the impact on the balance sheet of not applying the Matching Adjustment. Without the Matching Adjustment, the BEL would increase by £7.0bn (2022: £6.2bn), although this would be offset by an increase in transitional solvency relief leaving eligible Own Funds £4.0bn lower (unaudited) as at 31 December 2023 (2022: £3.0bn lower (unaudited)).

However, as can be seen in S.22, the SCR would also increase by around 244% (2022: 179%) without the Matching Adjustment. This would lead to SCR coverage at RL of 41% (2022: 57%) and 42% (2022: 58%) at RLP. The MCR would also increase by around 145% (2022: 176%). This would lead to MCR coverage for both RLP and RL around 80% (2022: both RLP and RL above 150%). The MCR coverage without the Matching Adjustment would be above 100% if the Volatility Adjustment was allowed for. The amounts in this paragraph are not subject to audit.

The valuation rate of interest used includes an allowance for investment management expenses of 3bps per annum (2022: 3bps per annum).

Expenses

Cash flows include an allowance for all expenses associated with managing existing insurance obligations, namely:

- The cost of maintenance associated with existing insurance obligations (in-house); and
- The cost of administration associated with existing insurance obligations (outsourced).

The allowance made for future maintenance expenses was updated at the end of 2023 following an investigation into the total costs incurred by Rothesay during 2023 and projected expenses.

The insurance contract 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. Allowance for future expense inflation has been provided to cover the impact of both salary and price inflation. The future rate of expense inflation is assumed to be RPI (as implied by the RPI swap curve) plus an addition at each duration of 0.25% p.a. for third party administrator expenses (2022: 0.25% p.a.).

On average, the overall expense allowance included in the cash flows is equivalent to £48 per policy per annum (2022: £40 per policy per annum).

D. Valuation for solvency purposes **continued**

Other 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, the limited price indexation (LPI) market has become highly illiquid and all but a very small number of banks have withdrawn from the market, leading to rates which are out of line with the LPI rates actually realised. We therefore project LPI rates using our own inflation models.

A number of other, less financially significant, assumptions are made in determining the provisions. These assumptions include, inter alia, the proportion of deferred and immediate annuitants assumed to have a dependant eligible for contingent benefits, the dependant’s age difference, the proportion of deferred annuitants opting to take a proportion or all of their benefit at retirement 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 valuation rate of interest. The ability of deferred annuitants to convert all or part of their pension to cash represents the only options available to policyholders and as such is the only modelled policyholder behaviour.

When deferred annuitants have passed the scheme normal retirement date and have been subject to an in-depth tracing exercise and yet remain untraced, a prudent allowance has been made for the probability of them taking their benefits in the future. All other individuals who have passed the scheme 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. Appropriately prudent provisions are established following detailed due diligence.

D.2.2 Risk margin

This section is not subject to audit.

The risk margin is the cost of transferring non-hedgeable risks. For Rothesay, this includes all underwriting risks, counterparty default risk in relation to reinsurance and operational risk. Following approval of Rothesay's FIM, the SCR for all risk modules are now calculated using the FIM. Rothesay adopts a mix of approaches to project the non-hedgeable SCR. For more material risks, the projected run-off is a combination of SCR calculated accurately at some future points in time with approximations for the remaining periods. For less material risks, the SCRs are projected using a suitable driver.

As part of the Solvency UK reforms, as of 31 December 2023, the risk margin calculation now incorporates a taper term to the projected capital amounts. This targeted approximately a 65% reduction in the risk margin for long-term life insurance business. All 2023 figures presented in this document incorporate the risk margin reform.

D. Valuation for solvency purposes continued

D.2.3 Transitional solvency relief

This section is not subject to audit.

Rothesay is permitted to take credit for transitional solvency relief in relation to business written before 1 January 2016. Transitional solvency relief amortises linearly to zero, falling by 1/16th on 1 January 2017 and again each year thereafter. We recalculated the transitional on 31 December 2023, as a result of the biennial recalculation as well as the risk margin reform, which came into effect on the same day.

As at 31 December 2023, transitional solvency relief was £222m gross of the impact of tax after allowing for amortisation of 7/16ths on 1 January 2023 (2022: £518m allowing for amortisation of 6/16ths on 1 January 2022). Transitional solvency relief is calculated using transitional measures on technical provisions. Transitional measures on interest rates are not applied.

Use of transitional solvency relief increases the deferred tax liability on a Solvency II basis. This is discussed in Section D.3.3.

Insurers using transitional solvency relief are required to disclose the impact on the balance sheet of not using transitional solvency relief. In the absence of transitional solvency relief, Rothesay's Own Funds would reduce by £166m after allowing for the associated impact of tax on Own Funds (2022: £388m). There is a second order effect on the SCR from removal of transitional measures due to tax effects. Without allowance for transitional solvency relief Rothesay coverage would be 264% (2022: 232%) and RLP's coverage would be 267% (2022: 235%).

D.2.4 Uncertainty associated with the value of technical provisions

Uncertainty relates primarily to the way in which actual performance differs from the best estimate assumptions used to calculate the technical provisions. Differences will arise as a result of Rothesay's risk profile, as described in Section C (which is not subject to audit), namely:

- Insurance risk covering demographic assumptions, including assumptions in relation to base mortality, mortality improvements, dependants and the exercise of options by deferred annuitants;
- Market risk (predominantly interest rates and inflation); and
- Credit risk.

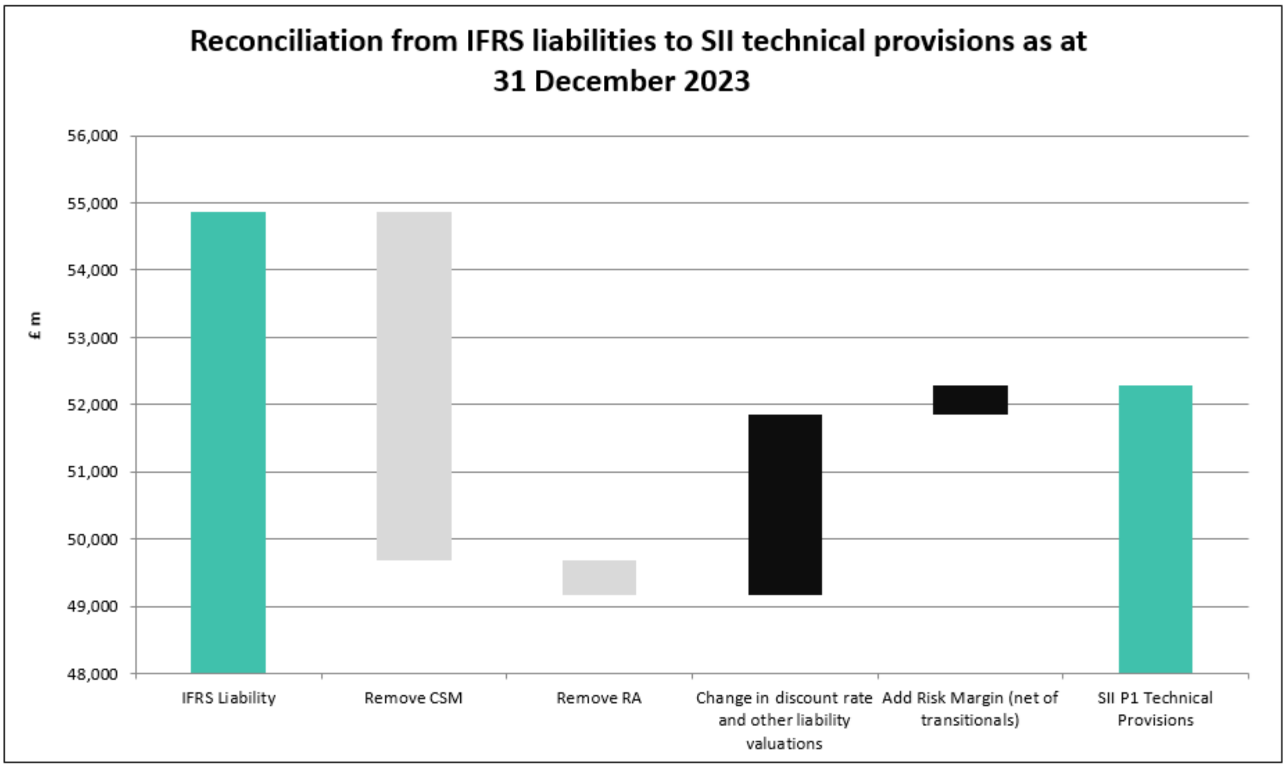
Section C.7 provides sensitivities of the surplus to changes in these areas. It should be noted that for market risks the sensitivities reflect changes to both the technical provisions and the assets.

Further operational risks exist as covered in Section C.5.

D. Valuation for solvency purposes continued

D.2.5 Comparison of Solvency II technical provisions and IFRS liabilities
The main differences between the Solvency II technical provisions and IFRS 17 liabilities arise due to the presence of the CSM and RA within the IFRS 17 liabilities compared to the inclusion of the risk margin (net of transitional measures) under Solvency II.

A reconciliation between Solvency II technical provisions and IFRS liabilities is shown in the chart below.



The differences in the discount rates arise predominantly from:

- Differences between the IFRS credit default allowance and Solvency II fundamental spreads;
- Differences between the assets hypothecated for the yield calculation through calculation methodology differences and differences in liability profiles under IFRS and Solvency II; and
- Impact under Solvency II of certain single premium liabilities not being held in the Matching Adjustment fund.

Other valuation differences are predominantly due to the treatment of deferred premiums. Under IFRS 17 these are netted down in insurance contract liabilities, whereas Solvency II includes deferred premium as a receivable asset.

D.2.6 Simplified methods
No material simplifications have been used in the valuation of technical provisions other than as detailed for the risk margin calculation in Section D.2.2.

D. Valuation for solvency purposes continued

D.3 Other liabilities

Please refer to QRT S.02.01.

D.3.1 Payables

Payables are carried at amortised cost for IFRS purposes. Rothesay considers that there are no material differences between an amortised cost and mark-to-market valuation for these payables and therefore there are no differences between the IFRS and Solvency II valuation except for presentational differences.

D.3.2 Borrowings

Under IFRS, borrowings (other than GBP RT1 debt as described below) are held at amortised cost, whereas under Solvency II the value of borrowings is updated to take account of changes in the relevant risk-free interest rate curve and market-based spread. As at 31 December 2023 this leads to valuation under Solvency II which is lower by £115m for all borrowings accounted for as debt under IFRS (2022: lower by £242m).

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.

Under IFRS, the value of borrowings include £12m (2022: £12m) of finance costs which are netted against the IFRS valuation of the debt. These finance costs are inadmissible for Solvency II purposes.

Note that accrued interest of £46m (2022: £22m) is included in payables rather than in the value of borrowings.

RT1 notes

Under IFRS, the £800m (2022: £800m) of GBP denominated RT1 notes (valued under IFRS at £793m, 2022: £793m) are accounted for as equity and hence do not appear in borrowings. Under Solvency II these notes are included in borrowings and are valued at £699m (2022: £662m).

The $400m of USD notes contain a contingent settlement provision which is linked to the occurrence of a ‘Capital Disqualification Event’. Such an event is deemed to have taken place where, as a result of a change to the Solvency II regulations, the notes no longer qualify as Own Funds. On the occurrence of such an event and where RLP has chosen not to use its corresponding right to redeem the notes, RLP is no longer able to exercise its discretion to cancel any interest payments due. Accordingly, the notes are considered to meet the definition of a financial liability for IFRS reporting purposes, i.e. they are not accounted for as equity and are included in borrowings.

EMTN Programme

In 2022, we established a £3bn Euro Medium Term Note Programme under which RLP can issue Tier 2 debt, which was renewed in 2023.

D. Valuation for solvency purposes continued

D.3.3 Deferred tax
The deferred tax asset under IFRS has historically arisen from a temporary difference between the financial statements and the tax deductions generated in relation to transitional adjustments following the introduction of IFRS 17 in 2023, as well as equity compensation timing differences.

In response to the adoption of IFRS 17, the UK Government has implemented "The Insurance Contracts (Tax) (Change in Accounting Standards) Regulations 2022 (SI2022/1165)" (the "Regulations"). This requires a life insurance company to calculate the impact of adoption of IFRS 17 on opening retained earnings (excluding the impact of movements in deferred tax and movements in any non-taxable amounts) and to spread this amount over a period of ten years for tax purposes (i.e. one tenth of the spread amount becomes taxable/deductible in each of the first ten years). The Regulations were enacted as of November 2022.

The adoption of IFRS 17 caused Rothesay to reduce the opening retained earnings (pre-tax) by £1,595m as at 1 January 2022. There was a further decrease in retained earnings during 2022 of £1,224m, due to the restatement in the Profit & Loss from IFRS 4 to IFRS 17. This resulted in a total reduction in retained earnings (pre-tax) of £2,819m as at 2022. Under the Regulations discussed above, this reduction in the retained earnings is treated as a tax deductible expense of the business (subject to the ten-year spreading). Under the transitional arrangements, this expense will be spread over a ten-year period resulting in an annual tax deduction of £282m over the ten-year period. The full amount of the transitional adjustment relates to activities in the United Kingdom.

The value of the deferred tax asset has been calculated based on the blended tax rate of 24.85% across the period over which the deferred tax asset is expected to be utilised. Prior to the enactment of the new regulations, the transitional losses are projected to be utilised over a longer period and hence a marginally different blended rate would have applied. For the purposes of restating comparatives, due to immateriality, we have not allowed for this impact, i.e. the value of the deferred tax asset at 2022 has been calculated assuming that the new regulations applied.

The value of the assets held in accordance with the Solvency II regulations is the same as the value presently used for the purposes of our tax calculation (with the exception of fixed asset valuations and reinsurance assets).

As discussed in Section D.2.3, the Solvency II technical provisions are lower than the IFRS liabilities used to calculate our tax position. As a result, there is an additional deferred tax liability on a Solvency II basis being the difference between IFRS liabilities and Solvency II technical provisions (after transitional measures) multiplied by the applicable tax rate.

In addition during the prior year, for RLP as at 31 December 2022, a £339m adjustment was made for the consolidation of deferred tax balances and intercompany payables, to provide the look-through position for RLP required for the purposes of solvency as this provided a fair representation of the true economic position for the Group.

Aside from these adjustments, no further adjustment is made to the tax position from that presented in Rothesay's IFRS accounts.

D.3.4 Accruals
Accruals are carried at amortised cost for IFRS purposes. Rothesay considers that there are no material differences between an amortised cost and mark-to-market valuation for these balances and therefore there are no differences between the IFRS and Solvency II valuation but accrued interest on financial liabilities under Solvency II is disclosed with the liability.

D. Valuation for solvency purposes continued

D.3.5 Leasehold liabilities and right-of-use asset

IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. There is no difference between the Solvency II valuation and the IFRS valuation.

During November 2023 Rothesay took over the lease of levels 3 and 4 of the Post Building, the lease has a duration of 12 years and we have used an incremental borrowing rate of 7.58%.

D.3.6 Contingent liabilities

The IFRS valuation (prescribed by IAS 37) defines a contingent liability as:

a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
b) A present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.

A contingent liability will be disclosed under IFRS but will not be recognised unless there is a greater than 50% probability of it materialising. The Solvency II regulations state that contingent liabilities should be recognised if considered "material".

Rothesay does not consider that it has any contingent liabilities.

D.4 Alternative methods for valuation

Rothesay uses alternative methods of valuation for Level 3 assets where one or more inputs to valuation techniques are significant and unobservable. Level 3 assets include:

- **Corporate bonds and other corporate debt** – These mainly comprise of private secured notes which are valued using discounted future cash flow models using spreads derived from observable spreads from similar assets in terms of credit quality and duration and applying additional illiquidity adjustments informed by recent transactions and indicative market quotes.

- **Derivative assets** – Rothesay uses derivative contracts for the purposes of efficient portfolio management and to mitigate the risk of adverse market movements. Rothesay's derivative contracts consist primarily of OTC derivatives. Such derivatives are not quoted in an active market and are generally valued using market transactions and other market evidence, including market-based inputs to models, calibration to market clearing transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations and the relationship of recent market activity to the prices provided from alternative pricing sources. Given the highly illiquid market for LPI, we have adjusted the value of our LPI-linked derivatives to allow for a bid-mid spread.

- **Loans secured on property** – These are valued using discounted future cash flow models using spreads derived from observable spreads from similar assets in terms of credit quality, loan-to-value ratio, sector and duration and applying additional illiquidity adjustments informed by recent transactions and indicative market quotes. Where possible, underlying property valuations are based on recent independent valuations and other market data.

D. Valuation for solvency purposes **continued**

- **Lifetime mortgages** – 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 no negative equity guarantee (NNEG). Cash flows are then discounted at a risk-free rate plus liquidity premium derived 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 are updated in line with the latest available market data.

- **Other residential mortgages** – Other residential mortgages are valued using a discounted cash flow model which allows for prepayment rates, borrower defaults and future house prices. Cash flows are then discounted at a risk-free rate plus liquidity premium derived from market-observed levels.

- **Collective investment schemes** – This comprises various types of fund assets which are marked using the fund valuation with fair value adjustments based on prevailing market pricing on the underlying fund assets.

- **Assets held for sale** – Assets held for sale mainly comprises property assets including investment property and commercial ground rents. The assets are valued using a discounted cash flows model and the valuation is informed by cap rates provided by brokers.

The valuation uncertainty of the Level 3 assets has been assessed by considering the impact of adjusting the key valuation assumptions, predominately the discount rate, to reasonably possible alternative discount rates for the relevant asset. Further details on Rothesay's accounting policy for the valuation of Level 3 assets, including assumptions used, valuation uncertainty to material inputs, and comparison of the valuations against experience, can be found in note D.1 of the Annual Report and Accounts.

We also use alternative methods of valuation for some Level 2 assets, in particular:

- **Collateralised agreements and financing** -These trades are marked at par on day one and the valuation moves in line with market conditions thereafter. For IFRS purposes these assets are considered Level 2 because the level of valuation uncertainty arising from the method used is not material. In addition, were the valuation to change then there would be a corresponding change in the valuation of the liabilities since the collateralised agreements are held in the Matching Adjustment fund.

D. Valuation for solvency purposes continued

D.5 Any other information

D.5.1 Accounting standard changes

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 brought significant changes to the accounting for insurance and as a result, we have restated comparatives as at 1 January 2022. There is no transitional impact in adopting IFRS 9 as Rothesay's financial investments are already measured at fair value and there is no remeasurement and redesignation 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.

Adoption of the new standard has not materially impacted Rothesay's solvency position or the ultimate profitability of new business, and has not led to any restatement of QRTs.

Please see the Rothesay Group Annual Report and Accounts for further information.

E. Capital management

E.1 Own Funds

E.1.1 Capital management objectives

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.

Under the Solvency II regime, Rothesay is required to hold the greater of the capital required under the Pillar 1 framework and the capital required under our own economic capital model, Pillar 2. Following the adoption of the FIM, the Pillar 2 requirement is now based on the Pillar 1 FIM capital.

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

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

The ORSA considers a five-year time horizon and projections include consideration of future capital requirements.

There are no fungibility or transferability restrictions across Rothesay.

The amounts relating to risk margin, transitional relief and SCR in this section are unaudited.

E.1.2 Analysis of Own Funds

Please refer to QRT S.23.01.

There are no material deductions from either the Own Funds of RLP or the Own Funds of RL.

The notional SCR for the Matching Adjustment fund is greater than the excess of assets over liabilities in the Matching Adjustment fund, as such there is no restriction to the assets held within the Matching Adjustment fund.

All of RL's Own Funds have been assessed as basic Own Funds. The structure and quality of RL's Own Funds by Tier is as follows:

2023 (£m)	Ref	Total	Unrestricted Tier 1	Restricted Tier 1	Tier 2	Tier 3
Ordinary share capital	E.1.2.1	**3**	**3**	—	—	—
Share premium account	E.1.2.1	**507**	**507**	—	—	—
Reconciliation reserve (adjusted)	E.1.2.2	**5,422**	**5,422**	—	—	—
Subordinated liabilities	E.1.2.3	**2,844**	—	**984**	**1,402**	**458**
Total basic Own Funds		**8,776**	**5,932**	**984**	**1,402**	**458**
Total eligible Own Funds available to meet the SCR		**8,466**	**5,932**	**984**	**1,402**	**148**
Total eligible Own Funds available to meet the MCR		**7,133**	**5,932**	**984**	**217**	—

E. Capital management continued

2022 (£m)	Ref	Total	Unrestricted Tier 1	Restricted Tier 1	Tier 2	Tier 3
Ordinary share capital	E.1.2.1	3	3	—	—	—
Share premium account	E.1.2.1	507	507	—	—	—
Reconciliation reserve (adjusted)	E.1.2.2	5,359	5,359	—	—	—
Subordinated liabilities	E.1.2.3	2,197	—	913	849	435
Total basic Own Funds		8,066	5,869	913	849	435
Total eligible Own Funds available to meet the SCR		8,066	5,869	913	849	435
Total eligible Own Funds available to meet the MCR		6,942	5,869	913	160	—

Tier 2 funds eligible to meet the MCR are capped at 20% of the MCR as at 31 December 2023 and 31 December 2022.

The structure and quality of RLP's Own Funds by Tier is as follows:

2023 (£m)	Ref	Total	Unrestricted Tier 1	Restricted Tier 1	Tier 2	Tier 3
Ordinary share capital	E.1.2.1	**510**	**510**	**—**	**—**	**—**
Share premium account	E.1.2.1	**—**	**—**	**—**	**—**	**—**
Reconciliation reserve (adjusted)	E.1.2.2	**5,514**	**5,514**	**—**	**—**	**—**
Subordinated liabilities	E.1.2.3	**2,844**	**—**	**984**	**1,402**	**458**
Total basic Own Funds		**8,868**	**6,024**	**984**	**1,402**	**458**
Total eligible Own Funds available to meet the SCR		**8,558**	**6,024**	**984**	**1,402**	**148**
Total eligible Own Funds available to meet the MCR		**7,225**	**6,024**	**984**	**217**	**—**

2022 (£m)	Ref	Total	Unrestricted Tier 1	Restricted Tier 1	Tier 2	Tier 3
Ordinary share capital	E.1.2.1	510	510	—	—	—
Share premium account	E.1.2.1	—	—	—	—	—
Reconciliation reserve (adjusted)	E.1.2.2	5,444	5,444	—	—	—
Subordinated liabilities	E.1.2.3	2,197	—	913	849	435
Total basic Own Funds		8,151	5,954	913	849	435
Total eligible Own Funds available to meet the SCR		8,151	5,954	913	849	435
Total eligible Own Funds available to meet the MCR		7,027	5,954	913	160	—

Tier 2 funds eligible to meet the MCR are capped at 20% of the MCR as at 31 December 2023 and 31 December 2022.

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.

E. Capital management continued

E.1.2.1 Ordinary share capital and share premium

As at 31 December 2023 Rothesay had an aggregate issued and paid up ordinary share capital of £3.1m (2022: £3.1m) and share premium of £507m (2022: £507m). RLP had an aggregate issued and paid up ordinary share capital of £510m (2022: £510m) and share premium of £nil (2022: £nil).

E.1.2.2 Reconciliation reserve

The reconciliation reserves disclosed on form S.23.01.21 for RLP of £5.5bn (2022: £5.4bn) consist of the excess of assets over liabilities adjusted by ordinary share capital, share premium and foreseeable charges. The reconciliation reserves disclosed on QRT form S.23.01.22 for Rothesay Group of £5.4bn (2022: £5.4bn) consist of the excess of assets over liabilities adjusted by ordinary share capital, share premium, own shares held and foreseeable charges.

E.1.2.3 Subordinated liabilities

Note that in the table below, the Solvency II values exclude accrued interest of £46m (2022: £22m) as this has been included within payables.

Rothesay's subordinated liabilities are summarised in the following table. In each case, RLP is the borrower.

Solvency II classification	Public/ private	Coupon	Issue date	Maturity date	Call date	Issue amount (£m)	Solvency II value 2023 (£m)
Tier 2	Public	8%	30/10/15	30/10/25	No call option	250	**240**
Tier 2	Private	6.05%	19/09/17	19/09/28	19/09/23 and annually thereafter	300	**297**
Restricted Tier 1	Public	6.875%	05/09/18	Perpetual	05/09/28 and every 5 years thereafter	350	**320**
Tier 3	Public	3.375%	12/07/19	12/07/26	No call option	500 (in three issues)	**458**
Tier 2	Public	5.5%	17/09/19	17/09/29	17/09/24	400	**345**
Restricted Tier 1	Public	5%	13/10/21	Perpetual	13/10/31	450	**379**
Restricted Tier 1	Public	4.875%	27/10/21	Perpetual	13/04/27	289 ($400m)	**285**
Tier 2	Public	7.75%	16/5/23	16/5/33	16/11/23	500	**520**

E.1.3 Movement in Own Funds

The table on the next page provides an analysis of the movement in Own Funds net of tax under Solvency II for 2023 and 2022 for both RLP and Rothesay Limited. All numbers are shown net of tax and allow for the impact of Matching Adjustment and changes in transitional solvency relief (where applicable).

E. Capital management continued

	RL		RLP	
	2023 £m	2022 £m	2023 £m	2022 £m
Opening Solvency II balance as at 31 December	**8,066**	8,269	**8,151**	8,361
Amortisation of 1/16th of transitional on 1 January	**(39)**	(100)	**(39)**	(100)
New business (on a fully invested basis)	**191**	(123)	**191**	(123)
Impact of temporarily being invested in gilts	**(255)**	—	**(255)**	—
Impact from investing prior year's premiums	**—**	39	**—**	39
Performance of in-force book	**962**	768	**968**	759
Non-economic assumption changes	**110**	(2)	**110**	(2)
Borrowing costs	**(130)**	(132)	**(128)**	(129)
Economic conditions	**(108)**	(522)	**(109)**	(523)
Impact of LACDT	**—**	—	**—**	—
Impact of new business not in MA fund	**(73)**	(131)	**(73)**	(131)
New capital issuance	**405**	—	**405**	—
Full internal model implementation	**(315)**	—	**(315)**	—
Dividend payment	**(348)**	—	**(348)**	—
Closing balance as at 31 December	**8,466**	8,066	**8,558**	8,151

E.1.4 Reconciliation of IFRS equity to Solvency II Own Funds

The following table provides a reconciliation of Own Funds to the equity capital as reported in the financial statements:

	RL		RLP	
	2023 £m	2022 £m	2023 £m	2022 £m
IFRS equity capital	**4,351**	4,057	**4,441**	4,142
Inadmissible assets	**(40)**	(30)	**(38)**	(30)
Reserving differences	**2,605**	2,756	**2,605**	2,755
Tier 1 restricted and other capital adjustments	**(918)**	(841)	**(975)**	(904)
SII excess of assets over liabilities	**5,998**	5,942	**6,033**	5,963
Tier 1 restricted, Tier 2 and Tier 3 debt	**2,533**	2,198	**2,533**	2,198
Other capital adjustments	**(65)**	(74)	**(8)**	(10)
Eligible Own Funds	**8,466**	8,066	**8,558**	8,151

Other capital adjustments shown includes own shares and foreseeable dividends as shown on S.23.

E. Capital management continued

E.2 SCR and MCR

This section is not subject to audit.

E.2.1 Solvency Capital Requirement (SCR)

The consolidated SCR is calculated using the Accounting Consolidation method, as the sum of:

- The SCR on consolidated data for wholly owned insurance subsidiary of RL and all wholly owned service subsidiaries of RL; and
- Capital requirements with respect to other relevant undertakings (RPML) as defined in the Solvency II regulations.

As at 31 December 2023, the SCR for RLP and RL, which is calculated using the FIM for all risk components was £3,101m (2022: £3,162m). Please note, both RLP and RL have the same SCR. The table below provides a breakdown of the SCR by risk module for RLP (please refer to QRT S.25.03.b and S.28.01.b):

	2023 £m	2022 £m
Total market risk	**2,580**	2,589
Total underwriting risk	**2,018**	1,025
Total counterparty default risk	**320**	252
Total operational risk	**568**	172
Total pre-diversification	**5,486**	4,038
Diversification	**(1,899)**	(635)
Capital add-on	**—**	69
Loss absorbing capacity of deferred taxes	**(486)**	(310)
Total SCR	**3,101**	3,162

Diversification predominantly arises between the market risk and underwriting risk modules. There is no benefit from Group diversification.

The reduction of £486m (2022: a reduction of £310m) in respect of the loss absorbing capacity of deferred taxes (LACDT) for the Group is derived as shown below.

	2023 £m	2022 £m
LACDT justified by reversion of deferred tax liabilities	**(80)**	(34)
LACDT justified by reference to probable future taxable economic profit	**(261)**	(252)
LACDT justified by carry back, current year	**(145)**	(24)
Total LACDT	**(486)**	(310)

The reversion of deferred tax liabilities reflects the reversal of differences between deferred tax liabilities as reported on S.02 and those reported on an IFRS basis. Probable future taxable economic profits are calculated based on conservative new business assumptions compared to the Group business plan. No allowance is made for the release of the risk margin when considering future profits. The adjustment justified by current year carry back reflects the recovery of taxes payable based on 2023 IFRS profits.

There have been no simplifications or undertaking specific parameters used in the calculation of the SCR results.

E. Capital management continued

E.2.2 Movement in SCR

The table below provides an analysis of the movement in SCR for 2023 and 2022 for RLP.

	2023 £m	2022 £m
Opening SCR	**3,162**	3,657
New business on a fully invested basis	**857**	141
Management of in-force book	**(770)**	139
Economic conditions	**330**	(1,036)
Full internal model implementation	**(434)**	—
Impact of new business not in MA fund	**69**	114
Impact of LACDT	**(113)**	147
Closing SCR	**3,101**	3,162

E.2.3 Minimum Capital Requirement

RLP's MCR as at 31 December 2023 was £1,089m (2022: £802m). The MCR has been calculated using the linear MCR calculation. The MCR cap and floor did not bite as at 31 December 2023 (2022: the MCR cap and floor did not bite). The Minimum Consolidated Group SCR for RL is equal to the MCR for RLP.

E.2.4 Solvency coverage ratios

The solvency position is summarised in the table below:

	RL		RLP	
	2023	2022	2023	2022
Tier 1 capital (£m)	**6,916**	6,782	**7,008**	6,867
Tier 2 capital (£m)	**1,402**	849	**1,402**	849
Tier 3 eligible capital (£m)	**148**	435	**148**	435
Own Funds eligible to meet SCR	**8,466**	8,066	**8,558**	8,151
SCR (£m)	**3,101**	3,162	**3,101**	3,162
Surplus above SCR (£m)	**5,365**	4,904	**5,457**	4,989
SCR coverage (%)	**273%**	255%	**276%**	258%
MCR (£m)	**1,089**	802	**1,089**	802
Own Funds eligible to meet MCR (£m)	**7,133**	6,942	**7,225**	7,027
MCR coverage (%)	**655%**	866%	**663%**	877%

The solvency coverage ratio as at 31 December 2023 includes recalculation of transitional solvency relief.

E.3 Use of equity risk sub-module

This section is not subject to audit.

The equity risk sub-module is not applicable to Rothesay.

E. Capital management continued

E.4 Differences between standard formula and internal model

This section is not subject to audit.

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.

As well as using the FIM for calculation of the SCR, use of the FIM is integrated into the capital management of the business, and output from the FIM is used wherever consideration of the SCR has a material impact on the decision making process, for example in:

- Business planning and strategic decision making;
- Assessing potential new investments;
- Pricing of new business; and
- Monitoring, reporting and management of Rothesay's Solvency II position.

E.4.1 Calculation methodology

The Internal Model has been calibrated consistently with the confidence level used in the Standard Formula calibration, i.e. to a 1-in-200 year loss in basic Own Funds over a one-year horizon.

The Internal Model encompasses all risks in the Standard Formula calibration which are relevant to Rothesay. It also includes additional risks which are not included in the Standard Formula, for example interest rate volatility and inflation risk, which impact the value of assets and liabilities; inflation volatility risk, which impacts the value of inflation-linked liabilities; and other demographic risks related to policyholder benefits. Distributions are calibrated for each of these risks by fitting to relevant external and internal data.

Furthermore, a significant level of additional granularity is included in the modelling of spread risk. Separate calibrations have been performed for each asset class within the scope of the spread risk module to ensure the calibration accurately reflects the differentiated risk profile of the assets held and risk mitigants, such as underlying collateral and high levels of security. This provides a level of granularity not provided by the standard formula. This also means that capital is held against assets which the standard formula considers to be risk-free, such as gilts.

The stochastic approach used in the Internal Model, where the impacts from a large number of individual scenarios are considered, allows Rothesay to precisely model the interactions between each risk in each scenario. This provides a more accurate representation of how Rothesay would expect its balance sheet to evolve under stress. The dynamics of the Matching Adjustment are explicitly captured under this approach. This includes recalculation of the fundamental spreads following a sustained period of stress, the requirement to re-establish a compliant Matching Adjustment portfolio post stress (for example, meeting the PRA's three cash flow matching tests) and subsequent recalculation of the Matching Adjustment. This is particularly important for Rothesay's two largest risks - spreads widening and longevity - which interact closely in the derivation of the Matching Adjustment spread.

Using stochastic modelling, Rothesay produces a full loss distribution of Own Funds over a one-year horizon. In contrast, the standard formula calculates standalone capital requirements for each sub-module, which are then aggregated, and does not produce a full loss distribution. The dependency structure between internal model risks is modelled under a copula framework. Repeated sampling from the resulting joint distribution generates a scenario set, for which the change in Own Funds is evaluated in every scenario, and ranked in order of increasing loss. The SCR is derived directly from this loss distribution, and is consistent with a 1-in-200 year loss over a one-year horizon.

E. Capital management continued

E.4.2 Nature and appropriateness of the data used within the internal model

A significant volume of data is used in the calibration of the stresses at an individual asset class level and in the calibration of the dependency structure.

Market data sourced from providers such as Merrill Lynch and Standard & Poor's has been used in the calibration of the spread widening and ratings migration elements of the spread calibration, and time series of spreads on CDS indices are used to calibrate the risk mitigating impact of credit hedges under stress, as well as the stressed default probabilities of derivative and reinsurance counterparties.

Market data has in some cases been supplemented by internally sourced data where appropriate. In all cases the credibility and relevance of the data were considered and documented during the calibration process, and where multiple credible data sources were available these alternatives were analysed and compared during the calibration process.

Expert judgement has informed some areas of the calibration where the available data was judged to be incomplete, lacking relevance or credibility, or otherwise unreliable, and Rothesay maintains a log documenting the nature and materiality of any expert judgements.

E.5 Non-compliance with the MCR and SCR

RL and RLP have continued to meet both the Minimum Capital Requirement and Solvency Capital Requirement during 2023 and to the date of signing.

E.6 Any other information

This section is not subject to audit.

E.6.1 Amortisation of transitional solvency relief

Transitional solvency relief amortises linearly to zero, falling by another 1/16th on 1 January 2024. As it does so, there is a second order effect on the SCR as a result of tax. The MCR is not impacted by the amortisation of transitional solvency relief.

The table below shows the impact of allowing for amortisation of 1/16th of transitional solvency relief on 1 January 2024:

1 January 2024 (after amortisation)	RL	RLP
Assets (£m)	60,757	60,850
Technical provisions (£m)	(52,307)	(52,307)
Own Funds (£m)	8,450	8,543
SCR (£m)	3,107	3,107
Surplus above SCR	5,343	5,436
SCR coverage (%)	272%	275%
SCR coverage without transitional solvency relief (%)	264%	267%
MCR (£m)	1,089	1,089
Own Funds eligible to meet MCR (£m)	7,115	7,207
MCR coverage (%)	653%	662%

E. Capital management **continued**

E.6.2 Accounting standard changes

As noted in Section D.5.1 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 brought significant changes to the accounting for insurance and as a result, we have restated comparatives as at 1 January 2022. There is no transitional impact in adopting IFRS 9 as Rothesay's financial investments are already measured at fair value and there is no remeasurement and redesignation between asset classes under the new standard.

The implementation of IFRS 17 has lead 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 business that was written in the past. To mitigate the reduction in retained earnings at transition, Rothesay Limited and RLP undertook capital reorganisations leading to a reduction in share premium and a corresponding increase in the profit and loss reserves in 2022. The reorganisations had no impact on total eligible Own Funds.

For more information on the transition to IFRS 17 please see note application of IFRS 17 in the Rothesay Limited Report and Accounts.

E. Capital management continued

Quantitative Reporting Templates

The following QRTs are required for the SFCR:

QRT reference	QRT template name
Group QRTs	
S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses
S.22.01.22	Impact of long-term guarantees, measures and transitionals
S.23.01.22	Own Funds
S.25.03.22	Solvency Capital Requirement – for Groups on Full Internal Models
S.32.01.22	Undertakings in the scope of the Group
Solo QRTs	
S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses
S.12.01.02	Life and Health SLT Technical Provisions
S.22.01.21	Impact of long-term guarantees, measures and transitionals
S.23.01.01	Own Funds
S.25.03.01	Solvency Capital Requirement - for undertakings on Full Internal Models
S.28.01.01	Minimum Capital Requirement - only life or only non-life insurance or reinsurance activity

The templates are included as an appendix to this report. Rounding in the QRTs is in thousands.

F. Directors' responsibility statement

Rothesay Limited and Rothesay Life Plc – Financial year ended 31 December 2023
We acknowledge our responsibility for preparing Rothesay's SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year to 31 December 2023, Rothesay has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the Group; and
b) it is reasonable to believe that Rothesay has continued so to comply subsequently and will continue so to comply in future.

The SFCR was approved by the Board of Directors on 22 March 2024 and was signed on its behalf by:

Graham Butcher
Chief Financial Officer

22 March 2024

G. External auditors' report

Report of the external independent auditors to the Directors of Rothesay Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2023:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2023, (**'the Narrative Disclosures subject to audit'**); and
- Group templates S.02.01.02, S.22.01.22, S.23.01.22 and S.32.01.22 (**'the Group Templates subject to audit'**).
- Company templates S.02.01.02, S.12.01.02, S.22.01.21, S.23.01.01 and S.28.01.01 in respect of Rothesay Life Plc ('the group members') (**'the Company Templates subject to audit'**).

The Narrative Disclosures subject to audit, the Group Templates subject to audit and the Company Templates subject to audit are collectively referred to as the **'relevant elements of the Single Group-Wide Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- Information contained within the relevant elements of the Single Group-Wide Solvency and Financial Condition Report set out above which is, or derives from the Solvency Capital Requirement, as identified in the Appendix to this report;
- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Single Group-Wide Solvency and Financial Condition Report;
- Group templates S.05.01.02 and S.25.03.22;
- Company templates S.05.01.02 and S.25.03.21;
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measure on technical provisions as set out in the Appendix to this report;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Single Group-Wide Solvency and Financial Condition Report (**'the Responsibility Statement'**);

To the extent the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2023 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Single Group-Wide Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

G. External auditors’ report continued

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management’s updated going concern assessment and material assumptions made using our knowledge of the Company's business performance, review of regulatory correspondence and obtaining further corroborating evidence;
- Considered management's assessment of the regulatory Solvency coverage and liquidity position in the forward looking scenarios considered which have been driven by the Group's ORSA;
- Considered information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management’s assessment of going concern; and
- Inquiring and understanding the actions taken by management to mitigate the identified risks, including review of Board Risk Committee minutes and attendance of all Audit Committees.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company’s ability to continue as a going concern for a period of at least twelve months from the date on which the Single Group-Wide Solvency and Financial Condition Report is authorised for issue.

In auditing the Single Group-Wide Solvency and Financial Condition Report, we have concluded that the Directors’ use of the going concern basis of accounting in the preparation of the Single Group-Wide Solvency and Financial Condition Report is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company’s ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Emphasis of Matter – Basis of Accounting

We draw attention to the ‘Valuation for solvency purposes’ and ‘Capital Management’ and ‘B.8.1 PRA waivers and discretions’ of the Single Group-Wide Solvency and Financial Condition Report, which describe the basis of accounting. The Single Group-Wide Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Single Group-Wide Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Single Group-Wide Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Single Group-Wide Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Single Group-Wide Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Single Group-Wide Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

G. External auditors' report **continued**

Responsibilities of Directors for the Single Group-Wide Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Single Group-Wide Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations. which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed in 'B.8.1 PRA waivers and discretions' section of the Single Group-Wide Solvency and Financial Condition Report.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Single Group-Wide Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Single Group-Wide Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Single Group-Wide Solvency and Financial Condition Report.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company/industry, we identified that the principal risks of non-compliance with laws and regulations related to Solvency II regulations, and we considered the extent to which non-compliance might have a material effect on the Single Group-Wide Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Single Group-Wide Solvency and Financial Condition Report such as such as the PRA Rulebook applicable to Solvency II firms. We evaluated management's incentives and opportunities for fraudulent manipulation of the Single Group-Wide Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to inappropriate adjustments to derive the Solvency II Balance Sheet, such as increasing the value of Own Funds of the Company, Management bias in estimates and judgmental areas of the Solvency II Balance Sheet and Solvency Capital Requirement such as the Solvency II valuation of Life Technical Provisions and the Solvency II valuation of Investments under an Alternative Valuation Model ('AVM'). Audit procedures performed included:

- Discussions with the Board, management, Internal Audit, senior management involved in the Risk and Compliance functions and the Group's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud relevant to the SFCR;
- Assessment of any matters reported on the Group's whistleblowing register and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority ('FCA') in relation to compliance with laws and regulations, including published waivers, permissions, modifications on the FCA register;
- Reviewing relevant meeting minutes including those of the Risk Committee and attending all Audit Committees;
- Procedures relating to the valuation of Life Technical Provisions, in particular longevity assumptions, the internal credit rating of illiquid assets within the Matching Adjustment portfolio, and the valuation of investments using Alternative Valuation Models. In addition, we consider whether there are indications of management bias in the Solvency II valuation;

G. External auditors' report continued

- Identifying material adjustments to derive the Solvency II financial information from the statutory financial statements and assessing for indicators of material non-compliance with Solvency II regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Single Group-Wide Solvency and Financial Condition Report. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Other Matter
The Company has authority to calculate its Group Solvency Capital Requirement using a internal model ('the Group Model') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. The group members have authority to calculate their Solvency Capital Requirements using internal models ('the Solo Models') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Group Model and the Solo Models, or whether the Group Model and the solo Models are being applied in accordance with the Company's and the group members' application or approval order.

Other Information
In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The engagement partner on the audit resulting in this independent auditors' report is Sue Morling.

PricewaterhouseCoopers LLP
Chartered Accountants
7 More London Riverside
London
SE1 2RT

22 March 2024

G. External auditors' report continued

Appendix – relevant elements of the Single Group-Wide Solvency and Financial Condition Report that are not subject to audit

The relevant elements of the Single Group-Wide Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of Group template S.02.01.02:
  - Row R0550: Technical provisions - non-life (excluding health) - risk margin
  - Row R0590: Technical provisions - health (similar to non-life) - risk margin
  - Row R0640: Technical provisions - health (similar to life) - risk margin
  - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
  - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin

- The following elements of Group template S.22.01.22
  - Column C0030 – Impact of transitional on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement

- The following elements of Group template S.23.01.22
  - Row R0020: Non-available called but not paid in ordinary share capital at Group level
  - Row R0060: Non-available subordinated mutual member accounts at Group level
  - Row R0080: Non-available surplus at Group level
  - Row R0100: Non-available preference shares at Group level
  - Row R0120: Non-available share premium account related to preference shares at Group level
  - Row R0150: Non-available subordinated liabilities at Group level
  - Row R0170: The amount equal to the value of net deferred tax assets not available at the Group level
  - Row R0190: Non-available Own Funds related to other Own Funds items approved by supervisory authority
  - Row R0210: Non-available minority interests at Group level
  - Row R0380: Non-available ancillary Own Funds at Group level
  - Row R0410 to R0440 -Own funds of other financial sectors
  - Row R0680: Group SCR
  - Row R0740: Adjustment for restricted own fund items in respect of Matching Adjustment portfolios and ring-fenced funds
  - Row R0750: Other non-available Own Funds

- The following elements of Company template S.02.01.02:
  - Row R0550: Technical provisions - non-life (excluding health) - risk margin
  - Row R0590: Technical provisions - health (similar to non-life) - risk margin
  - Row R0640: Technical provisions - health (similar to life) - risk margin
  - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
  - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin

- The following elements of Company template S.12.01.02
  - Row R0100: Technical provisions calculated as a sum of BE and RM - Risk margin
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions

G. External auditors' report continued

- The following elements of Company template S.17.01.02
  - Row R0280: Technical provisions calculated as a sum of BE and RM - Risk margin
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of Company template S.22.01.21
  - Column C0030 – Impact of transitional on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement
- The following elements of Company template S.23.01.01
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of Matching Adjustment portfolios and ring-fenced funds
- The following elements of Company template S.28.01.01/S.28.02.01
  - Row R0310: SCR
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

H. Appendix: Rothesay Limited QRTs

General information

Participating undertaking name	Rothesay Limited
Group identification code	2138004AIGF3ZBEQAF22
Type of code of group	LEI
Country of the group supervisor	GB
Language of reporting	en
Reporting reference date	31 December 2023
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the group SCR	Full internal model
Method of group solvency calculation	Method 1 is used exclusively
Matching adjustment	Use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 – Balance sheet
S.05.01.02 – Premiums, claims and expenses by line of business
S.22.01.22 – Impact of long term guarantees measures and transitionals
S.23.01.22 – Own Funds
S.25.03.22 – Solvency Capital Requirement – for groups on Full Internal Models
S.25.03.22 – Solvency Capital Requirement – for groups on Full Internal Models
S.32.01.22 – Undertakings in the scope of the group

H. Appendix: Rothesay Limited QRTs continued

S.02.01.02
Balance sheet

		Solvency II value
	Assets	**C0010**
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	57,187
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	86,941,361
R0080	*Property (other than for own use)*	195,926
R0090	*Holdings in related undertakings, including participations*	
R0100	*Equities*	0
R0110	*Equities – listed*	
R0120	*Equities – unlisted*	
R0130	*Bonds*	48,410,111
R0140	*Government Bonds*	20,024,893
R0150	*Corporate Bonds*	27,647,420
R0160	*Structured notes*	34,234
R0170	*Collateralised securities*	703,563
R0180	*Collective Investments Undertakings*	4,414,759
R0190	*Derivatives*	33,780,771
R0200	*Deposits other than cash equivalents*	139,795
R0210	*Other investments*	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	13,001,819
R0240	*Loans on policies*	
R0250	*Loans and mortgages to individuals*	7,954,080
R0260	*Other loans and mortgages*	5,047,740
R0270	Reinsurance recoverables from:	-3,304,327
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	-3,304,327
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	-3,304,327
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	2,364,230
R0390	Own shares (held directly)	57,308
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	267,260
R0420	Any other assets, not elsewhere shown	193,361
R0500	**Total assets**	**99,578,200**

H. Appendix: Rothesay Limited QRTs continued

S.02.01.02
Balance sheet continued

		Solvency II value
	Liabilities	**C0010**
R0510	Technical provisions – non-life	0
R0520	*Technical provisions – non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions – health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions – life (excluding index-linked and unit-linked)	48,977,873
R0610	*Technical provisions – health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions – life (excluding health and index-linked and unit-linked)*	48,977,873
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	48,554,824
R0680	*Risk margin*	423,049
R0690	Technical provisions – index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	79,728
R0790	Derivatives	33,157,495
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	3,094,317
R0820	Insurance & intermediaries payables	7,718
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	5,419,215
R0850	Subordinated liabilities	2,843,804
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	2,843,804
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	93,580,150
R1000	**Excess of assets over liabilities**	**5,998,050**

H. Appendix: Rothesay Limited QRTs continued

S.05.01.02
Premiums, claims and expenses by line of business
Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross				12,975,948				0	12,975,948
R1420	Reinsurers' share				2,273,382				0	2,273,382
R1500	Net				10,702,566				0	10,702,566
	Premiums earned									
R1510	Gross				4,798,963				43,781	4,842,744
R1520	Reinsurers' share				2,273,382				0	2,273,382
R1600	Net				2,525,581				43,781	2,569,361
	Claims incurred									
R1610	Gross				2,888,276				27,572	2,915,847
R1620	Reinsurers' share				2,126,149				0	2,126,149
R1700	Net				762,127				27,572	789,699
	Changes in other technical provisions									
R1710	Gross				-13,558,932				-262,995	-13,821,927
R1720	Reinsurers' share				-564,770				0	-564,770
R1800	Net				-12,994,162				-262,995	-13,257,157
R1900	**Expenses incurred**				337,963				3,835	341,799
R2500	**Other expenses**									-1,195
R2600	**Total expenses**									340,604

S.22.01.22
Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	**Technical provisions**	48,977,873	221,999	0	0	6,986,298
R0020	**Basic own funds**	8,775,153	-166,500	0	0	-6,559,069
R0050	**Eligible own funds to meet Solvency Capital Requirement**	8,465,529	-138,750	0	0	-6,277,196
R0090	**Solvency Capital Requirement**	3,100,552	55,500	0	0	7,499,024

H. Appendix: Rothesay Limited QRTs **continued**

S.23.01.22
Own Funds

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	**C0020**	**C0030**	**C0040**	**C0050**
R0010	Ordinary share capital (gross of own shares)	3,096	3,096		0	
R0020	*Non-available called but not paid in ordinary share capital at group level*	0				
R0030	Share premium account related to ordinary share capital	506,993	506,993		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0060	*Non-available subordinated mutual member accounts at group level*	0				
R0070	Surplus funds	0	0			
R0080	*Non-available surplus funds at group level*	0	0			
R0090	Preference shares	0		0	0	0
R0100	*Non-available preference shares at group level*	0				
R0110	Share premium account related to preference shares	0		0	0	0
R0120	*Non-available share premium account related to preference shares at group level*	0				
R0130	Reconciliation reserve	5,421,259	5,421,259			
R0140	Subordinated liabilities	2,843,804		983,905	1,401,592	458,307
R0150	*Non-available subordinated liabilities at group level*	0				
R0160	An amount equal to the value of net deferred tax assets	0				0
R0170	*The amount equal to the value of net deferred tax assets not available at the group level*	0				0
R0180	Other items approved by supervisory authority as basic own funds not specified above	0	0	0	0	0
R0190	*Non available own funds related to other own funds items approved by supervisory authority*	0				
R0200	Minority interests (if not reported as part of a specific own fund item)	0				
R0210	*Non-available minority interests at group level*	0				
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**					
R0230	**Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities**	0				
R0240	*whereof deducted according to art 228 of the Directive 2009/138/EC*	0				
R0250	Deductions for participations where there is non-availability of information (Article 229)	0				
R0260	Deduction for participations included by using D&A when a combination of methods is used	0				
R0270	**Total of non-available own fund items**	0	0	0	0	0
R0280	**Total deductions**	0	0	0	0	0

H. Appendix: Rothesay Limited QRTs **continued**

S.23.01.22
Own Funds continued

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
R0290	**Total basic own funds after deductions**	**8,775,153**	**5,931,349**	**983,905**	**1,401,592**	**458,307**
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0380	Non available ancillary own funds at group level	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Own funds of other financial sectors					
R0410	Credit Institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies	0				
R0420	Institutions for occupational retirement provision	0				
R0430	Non regulated entities carrying out financial activities	0				
R0440	**Total own funds of other financial sectors**	0	0	0	0	0

H. Appendix: Rothesay Limited QRTs **continued**

S.23.01.22
Own Funds continued

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	**C0020**	**C0030**	**C0040**	**C0050**
	Own funds when using the D&A, exclusively or in combination of method 1					
R0450	Own funds aggregated when using the D&A and combination of method	**0**				
R0460	Own funds aggregated when using the D&A and combination of method net of IGT	**0**				
R0520	Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**8,775,153**	5,931,349	983,905	1,401,592	458,307
R0530	Total available own funds to meet the minimum consolidated group SCR	**8,316,846**	5,931,349	983,905	1,401,592	
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**8,465,529**	5,931,349	983,905	1,401,592	148,684
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	**7,133,062**	5,931,349	983,905	217,808	
R0610	**Minimum consolidated Group SCR**	**1,089,042**				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	**654.98%**				
R0660	**Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)**	**8,465,529**	5,931,349	983,905	1,401,592	148,684
R0680	**Group SCR**	**3,100,552**				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	**273.03%**				
	Reconcilliation reserve	**C0060**				
R0700	Excess of assets over liabilities	**5,998,050**				
R0710	Own shares (held directly and indirectly)	**57,308**				
R0720	Forseeable dividends, distributions and charges	**9,393**				
R0730	Other basic own fund items	**510,089**				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**0**				
R0750	Other non available own funds					
R0760	**Reconciliation reserve**	**5,421,259**				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business	**623,144**				
R0780	Expected profits included in future premiums (EPIFP) - Non- life business					
R0790	**Total Expected profits included in future premiums (EPIFP)**	**623,144**				

H. Appendix: Rothesay Limited QRTs continued

S.25.03.22
Solvency Capital Requirement – for groups on Full Internal Models

	Unique number of component	Component description	Calculation of the Solvency Capital Requirement
Row	**C0010**	**C0020**	**C0030**
1	10000I	Market Risk	2,580,147
2	20000I	Counterparty risk	320,401
3	30000I	Life underwriting risk	2,018,359
4	70100I	Operational risk	568,070
5	80300I	Loss-absorbing capacity of deferred tax	-485,869

S.25.03.22
Solvency Capital Requirement – for groups on Full Internal Models

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	5,001,109
R0060	Diversification	-1,900,557
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency capital requirement excluding capital add-on**	3,100,552
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	3,100,552
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	-485,869
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	596,834
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	2,503,717
R0440	Diversification effects due to RFF nSCR aggregation for article 304	
R0470	Minimum consolidated group solvency capital requirement	1,089,042
	Information on other entities	
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	0
R0510	*Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies*	
R0520	*Institutions for occupational retirement provisions*	
R0530	*Capital requirement for non- regulated entities carrying out financial activities*	
R0540	Capital requirement for non-controlled participation requirements	
R0550	Capital requirement for residual undertakings	

H. Appendix: Rothesay Limited QRTs **continued**

S.32.01.22
Undertakings in the scope of the group

	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority
Row	**C0010**	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**
1	GB	2138004AIGF3ZBEQAF22	LEI	Rothesay Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares or by guarantee or unlimited	Non-mutual	
2	GB	RTCEKCVNBGTNCXT1JZ92	LEI	Rothesay Pensions Management Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
3	GB	MFQO711J5UPYBWXSPG12	LEI	Rothesay Life Plc	Life insurance undertaking	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority
4	GB	213800VJ8SB2HZ9DS845	LEI	LT Mortgage Financing Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
5	JE	2138004AIGF3ZBEQAF22JE00001	Specific code	The Rothesay Employee Share Trust	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Trust	Non-mutual	
6	GB	213800TVD5OHC11UAL06	LEI	Rothesay Asset Management UK Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
7	US	213800HMYA7FTJRVLB28	Specific code	Rothesay Asset Management North America LLC	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
8	GB	213800AAE8JLMGCMCO35	LEI	Rothesay MA No.1 Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
9	GB	213800ET6FAMYMO6UD20	LEI	Rothesay Mortgages Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
10	GB	213800AAAMP82RKQX911	LEI	Rothesay MA No.3 Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
11	GB	213800HD1VHI3VDQSS79	LEI	Rothesay MA No.4 Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
12	GB	213800PWS9HS7T7I5G68	LEI	Rothesay Foundation	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
13	AU	2138003E6FZOH6TF6S53	Specific code	Rothesay Asset Management Australia Pty Ltd	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
14	GB	2138007SG3BRF5OYMH68	LEI	Rothesay Property Partnership 1 LLP	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	

H. Appendix: Rothesay Limited QRTs continued

S.32.01.22
Undertakings in the scope of the group continued

					Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
Row	C0010	C0020	C0030	C0040	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
1	GB	2138004AIGF3ZBEQAF22	LEI	Rothesay Limited							Included in the scope		Method 1: Full consolidation
2	GB	RTCEKCVNBGTNCXT1JZ92	LEI	Rothesay Pensions Management Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
3	GB	MFQO711J5UPYBWXSPG12	LEI	Rothesay Life Plc	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
4	GB	213800VJ8SB2HZ9DS845	LEI	LT Mortgage Financing Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
5	JE	2138004AIGF3ZBEQAF22JE00001	Specific code	The Rothesay Employee Share Trust		100.00%		Principal Company	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
6	GB	213800TVD5OHC11UAL06	LEI	Rothesay Asset Management UK Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
7	US	213800HMYA7FTJRVLB28	Specific code	Rothesay Asset Management North America LLC	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
8	GB	213800AAE8JLMGCMCO35	LEI	Rothesay MA No.1 Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
9	GB	213800ET6FAMYMO6UD20	LEI	Rothesay Mortgages Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
10	GB	213800AAAMP82RKQX911	LEI	Rothesay MA No.3 Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
11	GB	213800HD1VHI3VDQSS79	LEI	Rothesay MA No.4 Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
12	GB	213800PWS9HS7T7I5G68	LEI	Rothesay Foundation	100.00%	0.00%	0.00%		Dominant	0.00%	Not included in the scope (art. 214 b)	2021-02-25	No inclusion in the scope of group supervision as defined in Art. 214 Directive 2009/138/EC
13	AU	2138003E6FZOH6TF6S53	Specific code	Rothesay Asset Management Australia Pty Ltd	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
14	GB	2138007SG3BRF5OYMH68	LEI	Rothesay Property Partnership 1 LLP	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation

H. Appendix: Rothesay Life Plc QRTs

General information

Undertaking name	Rothesay Life PLC
Undertaking identification code	MFQO711J5UPYBWXSPG12
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2023
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the SCR	Full internal model
Matching adjustment	Use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	Use of transitional measure on technical provisions

List of reported templates
S.02.01.02 – Balance sheet
S.05.01.02 – Premiums, claims and expenses by line of business
S.12.01.02 – Life and Health SLT Technical Provisions
S.22.01.21 – Impact of long term guarantees measures and transitionals
S.23.01.01 – Own Funds
S.25.03.21 – Solvency Capital Requirement – for undertakings on Full Internal Models
S.25.03.21 – Solvency Capital Requirement – for undertakings on Full Internal Models
S.28.01.01 – Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

H. Appendix: Rothesay Life Plc QRTs continued

S.02.01.02
Balance sheet

		Solvency II value
	Assets	**C0010**
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	53,550
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	86,770,562
R0080	*Property (other than for own use)*	195,926
R0090	*Holdings in related undertakings, including participations*	12,415
R0100	*Equities*	0
R0110	*Equities – listed*	
R0120	*Equities – unlisted*	
R0130	*Bonds*	48,410,111
R0140	*Government Bonds*	20,024,893
R0150	*Corporate Bonds*	27,647,420
R0160	*Structured notes*	34,234
R0170	*Collateralised securities*	703,563
R0180	*Collective Investments Undertakings*	4,231,545
R0190	*Derivatives*	33,780,771
R0200	*Deposits other than cash equivalents*	139,795
R0210	*Other investments*	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	13,218,531
R0240	*Loans on policies*	
R0250	*Loans and mortgages to individuals*	8,170,791
R0260	*Other loans and mortgages*	5,047,740
R0270	Reinsurance recoverables from:	-3,304,327
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	-3,304,327
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	-3,304,327
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	2,465,781
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	182,912
R0420	Any other assets, not elsewhere shown	193,361
R0500	**Total assets**	**99,580,371**

H. Appendix: Rothesay Life Plc QRTs continued

S.02.01.02
Balance sheet continued

		Solvency II value
	Liabilities	**C0010**
R0510	Technical provisions – non-life	0
R0520	*Technical provisions – non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions – health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions – life (excluding index-linked and unit-linked)	48,977,873
R0610	*Technical provisions – health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions – life (excluding health and index-linked and unit-linked)*	48,977,873
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	48,554,824
R0680	*Risk margin*	423,049
R0690	Technical provisions – index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	100,623
R0790	Derivatives	33,157,495
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	3,090,033
R0820	Insurance & intermediaries payables	7,718
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	5,369,618
R0850	Subordinated liabilities	2,843,804
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	2,843,804
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	93,547,164
R1000	**Excess of assets over liabilities**	**6,033,207**

H. Appendix: Rothesay Life Plc QRTs continued

S.05.01.02
Premiums, claims and expenses by line of business
Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
	Premiums written									
R1410	Gross				12,975,948				0	12,975,948
R1420	Reinsurers' share				2,273,382				0	2,273,382
R1500	Net				10,702,566				0	10,702,566
	Premiums earned									
R1510	Gross				4,798,963				43,781	4,842,744
R1520	Reinsurers' share				2,273,382				0	2,273,382
R1600	Net				2,525,581				43,781	2,569,361
	Claims incurred									
R1610	Gross				2,888,276				27,572	2,915,847
R1620	Reinsurers' share				2,126,149				0	2,126,149
R1700	Net				762,127				27,572	789,699
	Changes in other technical provisions									
R1710	Gross				-13,558,932				-262,995	-13,821,927
R1720	Reinsurers' share				-564,770				0	-564,770
R1800	Net				-12,994,162				-262,995	-13,257,157
R1900	**Expenses incurred**				337,963				3,835	341,799
R2500	**Other expenses**									-1,195
R2600	**Total expenses**									340,604

H. Appendix: Rothesay Life Plc QRTs **continued**

S.12.01.02
Life and Health SLT Technical Provisions

			Index-linked and unit-linked insurance			Other life insurance						Health insurance (direct business)					
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**									0	0						
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole									0	0						
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**						7,999,538	39,824,579		730,707	48,554,824						
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						-853,277	-2,451,049		0	-3,304,327						
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re						8,852,815	42,275,629		730,707	51,859,151						
R0100	**Risk margin**					624,577				20,472	645,048						
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole										0						
R0120	Best estimate										0						
R0130	Risk margin					-215,904				-6,095	-221,999						
R0200	**Technical provisions – total**					48,232,790				745,084	48,977,873						

H. Appendix: Rothesay Life Plc QRTs continued

S.22.01.21
Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	**C0030**	**C0050**	**C0070**	**C0090**
R0010	**Technical provisions**	48,977,873	221,999	0	0	6,986,298
R0020	**Basic own funds**	8,867,618	-166,500	0	0	-6,559,069
R0050	**Eligible own funds to meet Solvency Capital Requirement**	8,557,994	-138,750	0	0	-6,277,196
R0090	**Solvency Capital Requirement**	3,100,552	55,500	0	0	7,499,024
R0100	**Eligible own funds to meet Minimum Capital Requirement**	7,225,527	-166,500	0	0	-7,059,027
R0110	**Minimum Capital Requirement**	1,089,042	0	0	0	1,574,727

H. Appendix: Rothesay Life Plc QRTs continued

S.23.01.01
Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	**510,529**	510,529		0	
R0030	Share premium account related to ordinary share capital	**0**	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	**0**	0		0	
R0050	Subordinated mutual member accounts	**0**		0	0	0
R0070	Surplus funds	**0**	0			
R0090	Preference shares	**0**		0	0	0
R0110	Share premium account related to preference shares	**0**		0	0	0
R0130	Reconciliation reserve	**5,513,285**	5,513,285			
R0140	Subordinated liabilities	**2,843,804**		983,905	1,401,592	458,307
R0160	An amount equal to the value of net deferred tax assets	**0**				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	**0**	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	**0**				
R0230	**Deductions for participations in financial and credit institutions**	**0**	0	0	0	
R0290	**Total basic own funds after deductions**	**8,867,618**	6,023,814	983,905	1,401,592	458,307
	Ancillary own funds	**0**				
R0300	Unpaid and uncalled ordinary share capital callable on demand	**0**				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	**0**				
R0320	Unpaid and uncalled preference shares callable on demand	**0**				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**0**				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**0**				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**0**				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**0**				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**0**				
R0390	Other ancillary own funds	**0**				
R0400	Total ancillary own funds	**0**			0	0

H. Appendix: Rothesay Life Plc QRTs **continued**

S.23.01.01
Own Funds continued

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	**C0020**	**C0030**	**C0040**	**C0050**
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	**8,867,618**	6,023,814	983,905	1,401,592	458,307
R0510	Total available own funds to meet the MCR	**8,409,311**	6,023,814	983,905	1,401,592	
R0540	Total eligible own funds to meet the SCR	**8,557,994**	6,023,814	983,905	1,401,592	148,684
R0550	Total eligible own funds to meet the MCR	**7,225,527**	6,023,814	983,905	217,808	
R0580	**SCR**	**3,100,552**				
R0600	**MCR**	**1,089,042**				
R0620	**Ratio of Eligible own funds to SCR**	**276.02%**				
R0640	**Ratio of Eligible own funds to MCR**	**663.48%**				
	Reconcilliation reserve	**C0060**				
R0700	Excess of assets over liabilities	**6,033,207**				
R0710	Own shares (held directly and indirectly)	**0**				
R0720	Foreseeable dividends, distributions and charges	**9,393**				
R0730	Other basic own fund items	**510,529**				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**0**				
R0760	**Reconciliation reserve**	**5,513,285**				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) – Life business	**623,144**				
R0780	Expected profits included in future premiums (EPIFP) – Non-life business					
R0790	**Total Expected profits included in future premiums (EPIFP)**	**623,144**				

H. Appendix: Rothesay Life Plc QRTs continued

S.25.03.21
Solvency Capital Requirement – for undertakings on Full Internal Models

	Unique number of component	Component description	Calculation of the Solvency Capital Requirement
Row	**C0010**	**C0020**	**C0030**
1	10000I	Market Risk	2,580,147
2	20000I	Counterparty risk	320,401
3	30000I	Life underwriting risk	2,018,359
4	70100I	Operational risk	568,070
5	80300I	Loss-absorbing capacity of deferred tax	-485,869

S.25.03.21
Solvency Capital Requirement – for undertakings on Full Internal Models

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	5,001,109
R0060	Diversification	-1,900,557
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency capital requirement excluding capital add-on**	3,100,552
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	3,100,552
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	-485,869
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	596,834
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	2,503,717
R0440	Diversification effects due to RFF nSCR aggregation for article 304	
	Approach to tax rate	**C0109**
R0590	Approach based on average tax rate	No
	Calculation of loss absorbing capacity of deferred taxes	**LAC DT**
		C0130
R0640	Amount/estimate of LAC DT	-485,869
R0650	Amount/estimate of LAC DT justified by reversion of deferred tax liabilities	-100,623
R0660	Amount/estimate of LAC DT justified by reference to probable future taxable economic profit	-239,838
R0670	Amount/estimate of AC DT justified by carry back, current year	-145,408
R0680	Amount/estimate of LAC DT justified by carry back, future years	0
R0690	Amount/estimate of Maximum LAC DT	-887,324

H. Appendix: Rothesay Life Plc QRTs continued

S.28.01.01
Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	**C0030**
R0020	Medical expense insurance and proportional reinsurance		
R0030	Income protection insurance and proportional reinsurance		
R0040	Workers' compensation insurance and proportional reinsurance		
R0050	Motor vehicle liability insurance and proportional reinsurance		
R0060	Other motor insurance and proportional reinsurance		
R0070	Marine, aviation and transport insurance and proportional reinsurance		
R0080	Fire and other damage to property insurance and proportional reinsurance		
R0090	General liability insurance and proportional reinsurance		
R0100	Credit and suretyship insurance and proportional reinsurance		
R0110	Legal expenses insurance and proportional reinsurance		
R0120	Assistance and proportional reinsurance		
R0130	Miscellaneous financial loss insurance and proportional reinsurance		
R0140	Non-proportional health reinsurance		
R0150	Non-proportional casualty reinsurance		
R0160	Non-proportional marine, aviation and transport reinsurance		
R0170	Non-proportional property reinsurance		

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCRL Result	1,089,042

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	**C0060**
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations	51,859,151	
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	1,089,042
R0310	SCR	3,100,552
R0320	MCR cap	1,395,248
R0330	MCR floor	775,138
R0340	Combined MCR	1,089,042
R0350	Absolute floor of the MCR	3,233
R0400	**Minimum Capital Requirement**	1,089,042

Glossary of Terms

Acquisition costs	Acquisition costs comprise the expenses associated with the origination of new business, including annual compensation for employees.
Administration expenses	Administration costs represent the cost of administering the in-force book of business. They include both outsourcing costs and other costs incurred by Rothesay.
Annuity	A series of regular payments made to an individual until their death. Payments may be indexed.
Assets under management	Assets being managed by Rothesay. Can be derived by taking total assets and adjusting for reinsurance assets, derivative liabilities and collateralised liabilities.
Best estimate liability (BEL)	The liabilities of Rothesay calculated on a best estimate basis under Solvency II, i.e. where all the assumptions made in the calculation are best estimate.
Borrowing costs	Interest payable on borrowings.
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.
Currency translation	Gains and losses incurred when translating the overseas subsidiaries into the sterling consolidated balance sheet.
Deferred annuities	Annuities or pensions due to be paid from a future date or when the policyholder reaches a specified age.
Economic capital	Represents management's internal risk-based calculation of the capital required to remain solvent for a 99.5% confidence level over a one-year period.

Glossary of Terms continued

Economic profits	Profits or losses generated as a result of changes in economic conditions.
Employee benefit trust (EBT)	A trust established to purchase and hold shares of the Company for delivery under employee share schemes.
Employee Share Incentive Plan (ESIP) Trust	A trust established to purchase and hold shares of the Company for delivery under an HMRC-approved employee share scheme.
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.
Financial Conduct Authority (FCA)	The UK regulatory body that regulates the financial services industry in the UK. Its role includes protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers.
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 all material quantifiable 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.
Gross premiums written	Premiums received by RLP on new business and generated through regular premiums.
In-force	An insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated.
Insurance risk	The risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.
International Financial Reporting Standards (IFRS)	Accounting standards that are applied in preparing Rothesay's consolidated financial statements.
Investment return	Comprises all interest income on financial investments at fair value through profit and loss, realised investment gains and losses and movements in unrealised gains and losses, as well as expenses directly related to investments executed during the year.
Inwards reinsurance	Longevity-only reinsurance where Rothesay is acting as the reinsurer.
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 (%)	The longevity reinsurance percentage provides an indication of the extent to which Rothesay is protected from fluctuations in longevity through reinsurance. It is derived from the IFRS sensitivity analysis.

Glossary of Terms continued

Longevity risk	The risk that a company could be exposed to a higher payout as a result of increasing life expectancy.
Loss Absorbing Capacity of Deferred Taxes (LACDT)	The Loss Absorbing Capacity of Deferred Taxes adjustment reflects the fact that new deferred tax assets would be created in the event that Rothesay incurred unexpected losses, resulting in an increase of Own Funds. The LACDT reduces the SCR.
LTMF	LT Mortgage Financing Limited.
Market consistent embedded value (MCEV)	The risk-adjusted value of the in-force business, allowing for the unwind of IFRS margins and cost of capital.
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	Premium paid on new business transacted during the period and adjustments to new business premiums from prior periods. New business premiums and regular premium income make up gross premiums written.
New business profit	IFRS new business profit projected to be realised once the premium is invested according to Rothesay's long-term investment strategy, before release of IFRS margins.
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.
Operating profit before tax	Gross IFRS profit less the impact of market fluctuations, exceptional expenses and financing costs.
Operational risk	The risk arising from inadequate or failed internal processes, personnel or systems, or from external events. Operational risk includes conduct and cyber risk.
Own Funds	Assets in excess of those required to meet the Solvency II technical provisions.
Own risk and solvency assessment (ORSA)	An assessment of the risk to which the business is exposed as well as solvency forecasting in a range of scenarios, including consideration of the stresses that could jeopardise Rothesay's business plans.
Partial internal model (PIM)	Under Solvency II, insurer's own model used to calculate the solvency capital requirement in relation to particular risks approved by the PRA.
Part VII transfers	Court-approved transfer of a portfolio of contracts from one insurer to another under Part VII of the Financial Services and Markets Act 2000.
Performance of in-force book	Profits or losses generated on the in-force book of business.

Glossary of Terms continued

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 a 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.
Regular premiums	Payments of premium made regularly over the duration of the policy.
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 (re)insurance contract liabilities.
Risk margin	Under Solvency II, the cost of transferring non-hedgeable risks.
RL	Rothesay Limited
RLP	Rothesay Life Plc, the Group's regulated life company.
RMA1	Rothesay MA No.1 Limited.
RMA3	Rothesay MA No.3 Limited.
RMA4	Rothesay MA No.4 Limited.
RML	Rothesay Mortgages Limited (formerly Rothesay MA No.2 Limited).
RPML	Rothesay Pensions Management Limited, the Group's service company.
S3PMA/S3PFA	S3PMA/S3PFA refer to mortality tables drawn up by the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries. These represent version 3 of the industry standard tables derived from pensioner data from self-administered pension schemes. Separate tables are utilised for males and females.
SARs	Share Appreciation Rights plan. Provides for grants of cash-settled share appreciation rights.
SCR coverage ratio	Own Funds divided by SCR. Measure of surplus above capital requirement.
Share-based payment reserve	The share-based payment reserve relates to equity-based compensation awards.
Single premiums	Single premium policies of insurance are those that require only a single lump sum payment from the policyholder.
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)	Under Solvency II, capital requirement to withstand a 1-in-200 year event.

Glossary of Terms continued

Solvency II	The solvency regime applicable from 1 January 2016. Under Solvency II, Rothesay is required to hold the greater of the capital required under the new Solvency II Pillar 1 framework and the capital required under our own economic capital models Solvency II Pillar 2.
Strategy risk	The risk of loss in future earnings and capital arising from changes in the competitive, economic, legal or political environment, changing customer behaviour, or a failure to select appropriate strategic or long-term business plans.
Subordinated loan	A fixed interest issue or debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for added risk through higher rates of interest. Under EU insurance regulation, subordinated debt is not treated as a liability and counts towards the coverage of the required minimum margin of solvency with limitations.
Surrender	The termination of a life insurance policy or annuity contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, of the contract.
Third party administration (TPA) agreement	Contract with pensions administrator to process claims and payroll on behalf of RLP.
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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