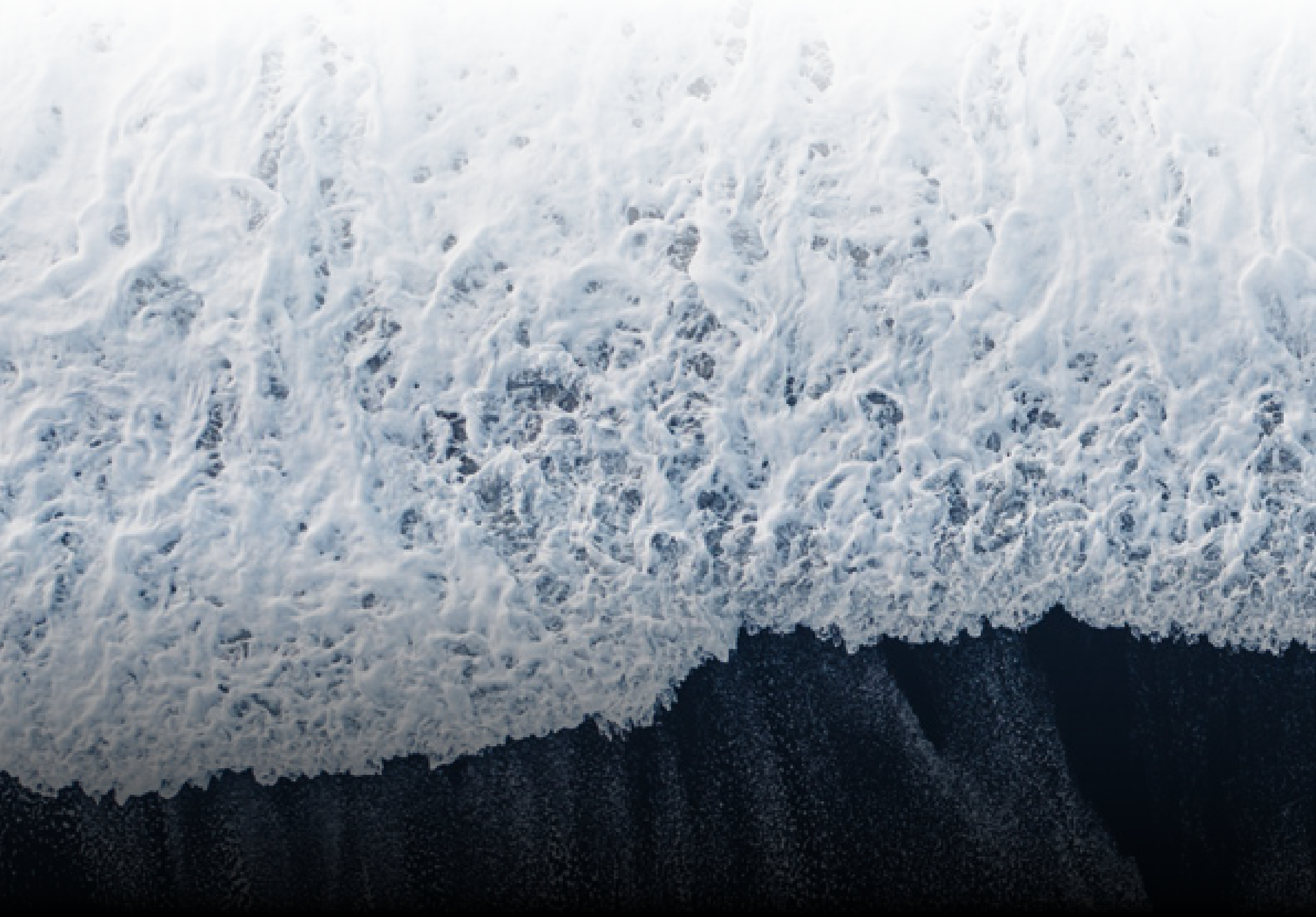
Rothesay

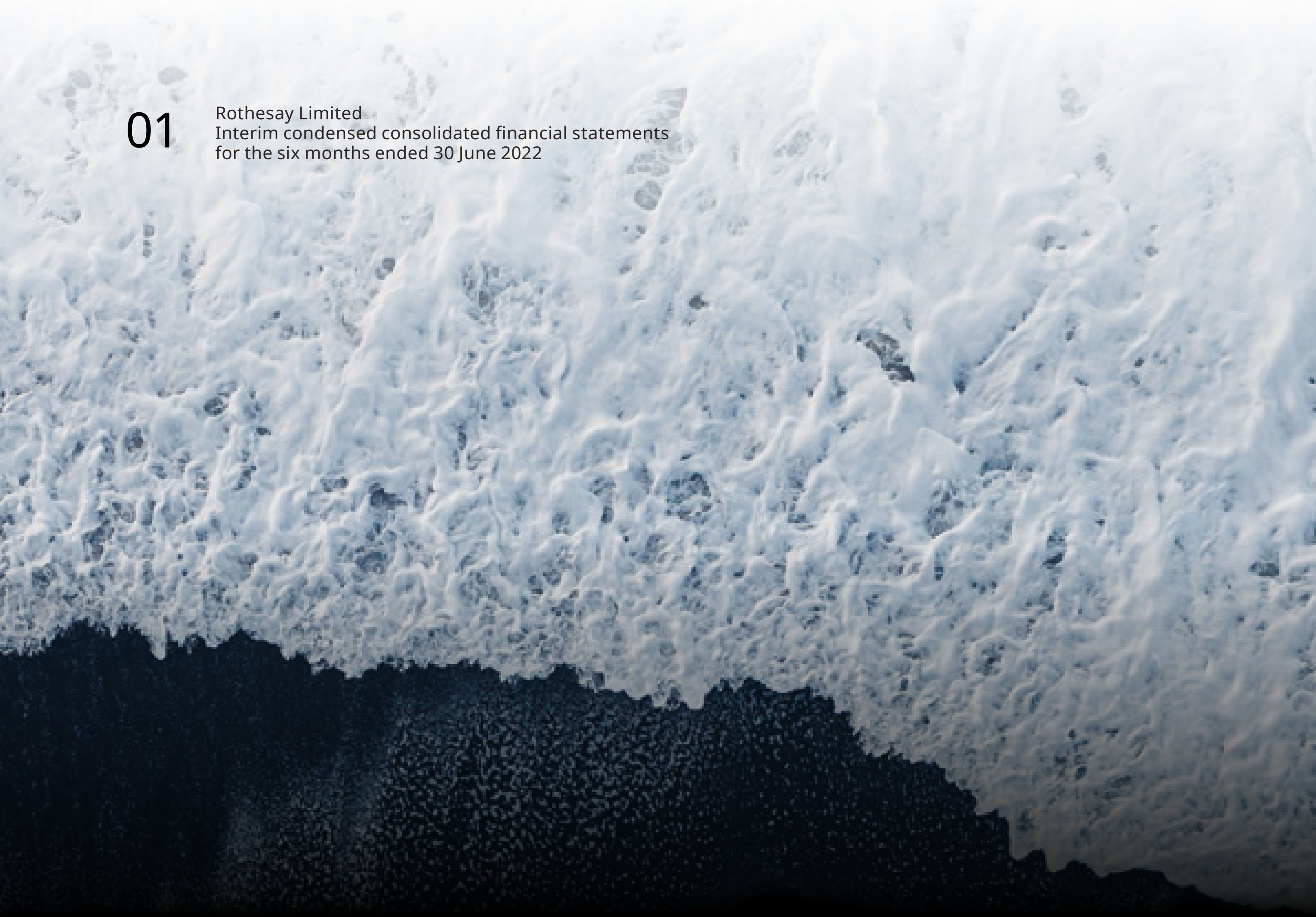
Focused on the future

Rothesay Limited
Interim condensed consolidated financial statements
for the six months ended 30 June 2022



Our purpose

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



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

Highlights

Key statistics

	HY2022	HY2021	FY2021
New business premium **APM**[1]	**£1.0bn**	£1.6bn	£3.0bn
Group Solvency Capital Requirement (SCR) coverage **APM**	**248%**	202%	226%
Longevity reinsured **APM**	**89%**	84%	84%
IFRS profit before tax	**£89m**	£329m	£913m
Customer satisfaction **APM**	**93%**	95%	94%
Assets under management **APM**	**£51.9bn**	£60.6bn	£62.5bn
Number of policies	**813,986**	850,273	837,721
Market consistent embedded value **APM**	**£6.5bn**	£6.7bn	£7.1bn
MCEV new business profit **APM**	**£78m**	£129m	£243m
Paid to policyholders in the period	**£1.4bn**	£1.4bn	£2.9bn

A+
Fitch Ratings credit rating

A3
Moody's Industry rating

A glossary of terms used can be found on page 61.

1 APM – Alternative Performance Measure; please see page 13 for further details.

Who we are

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

Rothesay is the UK's largest 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 genuine service excellence for all our policyholders.

Our conservative investment strategy and prudent underwriting mean we are trusted by the pension schemes of some of the UK's best known companies to provide pension solutions, including Asda, British Airways, Cadbury's, the Civil Aviation Authority, Smiths Group, William Hill, National Grid, the Post Office and telent.

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

Today, we manage over £50 billion in assets, secure the pensions of over 810,000 people, and pay out, on average, over £200 million in pension payments each month. We are securing the future for every one of our clients and policyholders, and improving how pensions are delivered as we do it.

What we deliver

Real financial security

We are obsessed about effectively managing risk – we value every asset and liability every day, so we can react in the moment as the world changes.

Genuine service excellence

We are focused on every detail, to provide genuine service excellence for every one of our policyholders and trustees.

Section

2 Strategic report

Strategic report

Our strong capital position means we are well-placed to execute the exciting new business opportunities ahead.

Addy Loudiadis
Chief Executive Officer

Chief Executive's statement

The first half of 2022 saw the lifting of most of the UK government's COVID-19 restrictions and the slow return to more normal conditions. However, at the same time, we have seen the devastating scenes from Ukraine as Russia continues its terrible aggression there. This, in turn, has resulted in turbulent financial markets, the cost-of-living crisis and significant increases in real interest rates.

New business premium (APM):

£1.0bn

HY2021: £1.6bn

Rothesay SCR coverage (APM):

248%

FY2021: 226%

As a business, Rothesay is designed to protect pensions even through the most difficult times and current market conditions are demonstrating once again the value of our purpose-built risk management systems. Regular stress testing and live monitoring of the financial and solvency position of Rothesay allows us to respond dynamically as the market evolves, ensuring that we ended the half year with a very robust SCR coverage ratio of 248% (HY2021: 202%, FY2021: 226%), substantially above our target operating range and positioning us well for future opportunities ahead.

We have maintained our disciplined approach to new business, remaining patient in a competitive environment to ensure returns are satisfactory. During the first half of 2022 we assisted four pension schemes to de-risk, generating £1bn of new business premiums (HY2021: £1.6bn, FY2021: £3.0bn) and new business embedded value of £78m (HY2021: £129m, FY2021: £243m). We are also exclusive on a further £3.0bn of liabilities.

We were delighted to see our performance and market-leading approach recognised in the European Pensions Awards 2022, where we were named Pensions Insurance Firm of the Year.

Financial results

During the first half of 2022, we continued to invest new business premiums received in prior periods according to our long-term strategy and in line with our underwriting targets. When we underwrite new business, we assume it will take time to invest the premiums and this allows us to be patient in making investments. The profits generated from investment allowed us to generate operating profits of £647m (HY2021: £322m, FY2021: £904m). These profits were then largely offset by the impact of the increase in long-term interest rates combined with credit spread widening to give IFRS pre-tax profits of £89m (HY2021: £329m, FY2021: £913m).

The change in economic conditions also meant that Rothesay's overall market consistent embedded value decreased from £7.1bn at the end of 2021 to £6.5bn. The increase in long-term interest rates also led to a fall in assets under management from £62.5bn at the end of 2021 to £51.9bn.

More details on our financial performance can be found in the financial review on page 11.

Chief Executive’s statement
continued

Risk and capital management
As noted on the previous page, the first half of 2022 has seen very volatile markets and increasing real interest rates. The duration of our liabilities means that Rothesay’s balance sheet is particularly sensitive to long-term interest rates and our sophisticated risk management systems again proved vital in managing this and responding rapidly to a challenging economic environment.

Our investment portfolio has an average rating of AA and is focused on assets with high quality collateral. We have no material exposure to Russia or Ukraine. The quality of our investment portfolio, combined with active monitoring and management of our credit portfolio, means that we continue to be well positioned to withstand adverse market conditions.

We started the year with a significant capital surplus above our target operating range available to write new business. Increasing real interest rates resulted in Own Funds of £8.2bn on 30 June 2022 (HY2021: £7.1bn, FY2021: £8.3bn) and an SCR coverage ratio of 248% (HY2021: 202%, FY2021: 226%). Rothesay’s liquidity has also remained robust throughout the ongoing market turmoil and we continue to hold large liquidity buffers.

We continue to hedge market and longevity risk exposures and benefit from robust collateral arrangements which mitigate counterparty risk. We entered into three new longevity reinsurance agreements in the first half of 2022, as a result of which we have now reinsured 89% of our longevity exposure (HY2021: 84%, FY2021: 84%).

Our policyholders
Providing over 810,000 policyholders with a safe and secure pension is at the heart of what we do. We pride ourselves on the level of service we provide and I am pleased to say that we maintained our high service standards during the period despite continuing hybrid working, with over 93% **(APM)** (HY2021: 95%, FY2021: 94%) of customers rating the quality of service received as good or excellent.

I am delighted to say that in May 2022, the Pensions Administration Standards Association (PASA) confirmed our re-accreditation. PASA promotes and improves the quality of pensions administration services for UK pension schemes. Our continued Accreditation demonstrates Rothesay’s ongoing commitment to delivering outstanding service.

Our people
Our people are a key strength of Rothesay and we were delighted to welcome staff back to the office once it was safe to do so, taking the time to reconnect in person. Being able to meet and collaborate in person is invaluable, facilitating creativity and learning, and enhancing our culture.

During the first half of 2022, we continued to recruit, particularly to strengthen our control functions in line with our planned growth and to support continuing development of our IT platform. By 30 June 2022, Rothesay had 370 employees (HY2021: 333, FY2021: 359).

Net zero
Rothesay is determined to play its part in combatting climate change and global warming. Our own operations are now carbon neutral (as certified by CarbonNeutral) and we are making progress in reducing the carbon intensity of our investment portfolio. We have committed to reducing the carbon intensity of our portfolio by 20% in the five year period to 2025 and have achieved a 7% reduction so far.

For more information, see our Environmental, Social and Governance report 2021, which will be available on the Rothesay Limited website, once published.

LTA partnership
During 2022, Rothesay became the exclusive pensions partner to the LTA, the national governing body of tennis for Great Britain, supporting the future of British tennis and helping to open up tennis to more people of any age, ability and background. Rothesay is now the title sponsor of the Rothesay Summer Series: the Rothesay Open Nottingham, Rothesay Classic Birmingham and Rothesay International Eastbourne.

Charitable donations
The conflict in Ukraine is deeply concerning for us all. In response, Rothesay made a donation of £500,000 to the International Committee of the Red Cross. In addition, we are encouraging our people to make monetary donations to support the relief effort in Ukraine, by matching donations on a 3-to-1 basis.

We continue to support Rothesay Foundation[2] with the aim of helping charities that seek to improve the quality of life for older people and in 2022 we are also supporting Brain Tumour Research, as our employee-nominated charity of the year.

2 The Foundation is not incorporated into the consolidated financial statements as the charity is controlled by its trustees rather than the Group.

Chief Executive's statement
continued

Changes to the Board

On 30 June 2022, Ray King stepped down from the Board. Ray joined the Board in November 2014 and chaired Rothesay from January 2016 to December 2017. During his time with Rothesay, Ray has also chaired the Audit Committee, the Remuneration Committee and the Nomination Committee. On 30 June 2022, Jane Hanson CBE also stepped down from the Board. I would like to take this opportunity to thank both for their contribution whilst at Rothesay and to wish them well for the future.

Jackie Hunt and Angela Darlington were appointed to the Board as new independent Non-Executive Directors on 12 July 2022 and 1 August 2022. They bring extensive and relevant experience as well as complementary skills to the Board and will further improve the Board's gender balance.

We have now made the Customer and Conduct Committee a Board Committee, enhancing our strong governance model and helping to maintain Board focus on providing excellent customer service. The new committee is composed solely of non-executive directors and is chaired by Terry Miller.

Looking forward

Improved pension scheme funding levels mean that de-risking is increasingly affordable for schemes. This has led to a strong new business pipeline and I am excited by the number and size of the schemes that are now holding de-risking conversations.

Our disciplined approach to underwriting, our patient and innovative investment strategy and our strong financial position mean that we enter the second half of the year well placed to take advantage of growth opportunities. I am confident that Rothesay will continue to experience significant growth, providing pension security for our policyholders and value to our shareholders over the long term.

Addy Loudiadis
Chief Executive Officer
11 August 2022

Business review

New business

As noted in the Chief Executive's report, during the first half of 2022, we assisted four pension schemes in de-risking their liabilities, resulting in new business premiums **(APM)** of £1.0bn (HY2021: £1.6bn, FY2021: £3.0bn). We also entered into exclusivity arrangements in relation to a further £3.0bn of liabilities.

During the first half of 2022, we also entered into three new longevity reinsurance agreements, two of which are in relation to historic business and one is in relation to new business written in 2022.

Funding for many pension schemes has improved in the first half of 2022 as a result of the increase in long-term interest rates and high near-term inflation. De-risking is increasingly affordable for schemes and this has led to a strong new business pipeline and early conversations with a number of large pension schemes regarding the feasibility of de-risking.

Investment activity

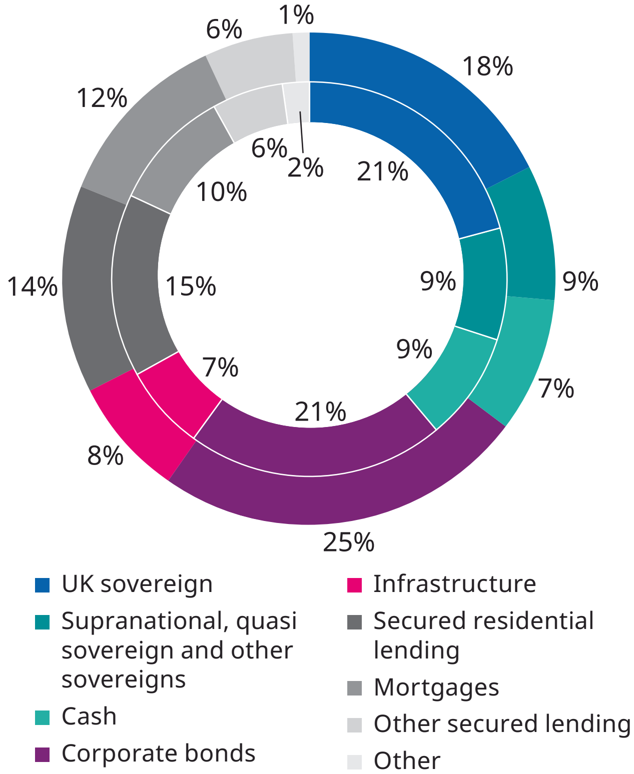
Our in-house team is responsible for the management of Rothesay's £52bn asset portfolio. Assets are sought which match our liability cash flows and which provide an appropriate risk-adjusted return. Rothesay operates a cautious investment strategy which seeks to diversify exposure and actively manages risk. We are constantly looking for new ways to reduce risk and achieve the dependable returns that create real security for people's pensions in the future.

At the end of 2021, Rothesay had substantial cash and gilts to deploy into longer-term assets due to new business written in prior years. During the first half of 2022, the focus has been on investing those assets according to Rothesay's long-term investment strategy.

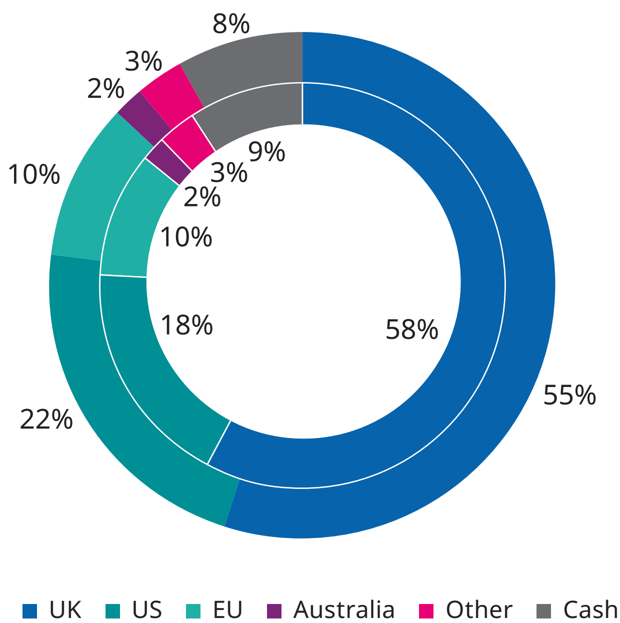
In February 2022, Rothesay purchased a £687m portfolio of equity release mortgages (ERMs) from Just Group Plc. That, combined with strong ERM volumes during the first six months of 2022, meant that as at 30 June 2022, our total ERM portfolio has increased to £5.7bn (HY2021: £4.5bn, FY2021: £5.3bn) or 11% of assets under management (HY2021: 7%, FY2021: 8%). We also continue to fund Dutch residential mortgages and long-term, fixed rate mortgages in the UK.

Outer circle: HY2022
Inner circle: FY2021

Our investments



International diversification



Business review
continued

The average rating of Rothesay's investment portfolio remains AA and the portfolio can be divided into three broad categories:

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

Of our £19bn holding of corporate bonds and infrastructure, around 31% (HY2021: 32%, FY2021: 31%) (or 11% of total assets) is rated BBB and of those only £0.2bn is rated BBB- (HY2021: £0.2bn, FY2021: £0.3bn). Rothesay holds no sub-investment grade assets.

The charts on the previous page provide a breakdown of our investment portfolio at 30 June 2022 and 31 December 2021 by sector and geography. The charts show an increase in investment in corporate bonds and mortgages and an increase in allocation to USD-denominated assets (partly as a result of the strengthening of the USD relative to sterling).

Responsible investment
The in-house investment team considers environmental, social and governance (ESG) factors as part of the investment process and these factors are formally documented in all committee approval papers for new investments in order to ensure that appropriate account is taken of them.

We are transitioning our investment portfolio to net zero greenhouse gas emissions by 2050, aligned with the goal of the Paris Agreement to limit global warming to 1.5°C above pre-industrial levels. We have set the interim goal of reducing the carbon intensity of our investment portfolio by 20% in the five year period to 2025 and estimate that the carbon intensity of our portfolio fell by 7% in 2021. We are a signatory to the UN Principles for Responsible Investing, a supporter of the Task Force on Climate-related Financial Disclosures and an adopter of the Sustainability Reporting Standard for Social Housing.

For more information, see our 2021 Environmental, Social and Governance report, which will be published on the Rothesay Limited website.

Operations and customer service
Now that we are learning to live with COVID-19, we have welcomed all employees back to the office. We believe in the value of people being together face-to-face and we feel strongly that being in the office at Rothesay is exciting, fun and conducive to doing our best work. Although we plan to retain an element of hybrid working to offer flexibility to our people, we have been clear that we remain an office-centric organisation.

We continue to monitor the impact of home working on our third party administrators and other outsourcing partners and are pleased that with their help we have been able to deliver our market-leading customer service throughout the pandemic.

As noted in the Chief Executive's report, during the first half of 2022, over 93% **(APM)** (HY2021: 95%, FY2021: 94%) of customers rated the quality of service they received as good or excellent. Our complaint levels continue to be low with just 1.31 complaints received per 1,000 policyholders **(APM)** (HY2021: 1.17 per 1,000, FY2021: 1.40 complaints per 1,000) of which 0.43 complaints per policyholder were upheld **(APM)** by us following a thorough investigation (HY2021: 0.44 complaints per 1,000, FY2021: 0.51 complaints per 1,000).

During the first half of 2022, we initiated the in-house administration of a number of pension buy-ins, rather than outsourcing this activity. Doing the work in-house ensures that we can build and maintain close working relationships with the pension scheme administrators and allows us to leverage our risk management systems to minimise discrepancies and ensure that we fund our clients accurately and on time.

At the end of 2021, around 350,000 policyholders transferred from Prudential to Rothesay. The administration of these policies is currently being done by Diligenta, Prudential's third party administrator. Our focus in the second half of 2022 is on planning for the smooth transition of the administration of these policies to Capita, which we now expect will take place in 2023.

Financial review

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

IFRS financial performance

Rothesay made an operating profit before tax of £647m (HY2021: £322m, FY2021: £904m) as we were able to invest cash and gilts received as new business premiums according to our long-term investment strategy. Increased credit default provisions and the impact of other changes in economic conditions then meant that we made profit before tax of £89m (HY2021: £329m, FY2021: £913m). The financial performance analysis shown in the table below provides an explanation of the way in which profits have been generated. Further explanation of the line items can be found in the notes on Alternative Performance Measures on page 57.

New business profits **(APM)** in the analysis are calculated assuming full investment of premiums and the short-term impact of any under-investment is reported separately in the table. New business profit **(APM)** for the period was £61m (HY2021: £111m, FY2021: £213m).

While we are patient when investing the premiums received, investment activity in the first half of 2022 means that we have now effectively invested all of the premiums received as new business, leading to no temporary reduction in profits (HY2021: a reduction of £213m, FY2021: a reduction of £201m) **(APM)**.

Widening credit markets meant that we have also invested all the assets received as premiums in prior years leading to profits for the period of £201m (HY2021: £279m, FY2021: £547m) **(APM)**.

Profits generated on the in-force book were £487m (HY2021: £221m, FY2021: £403m) **(APM)**. These profits mainly arose from investment activity and the release of prudent margins as the business runs off and as members exercise their options to transfer or commute.

No material model refinements were made over the period (impacts from model changes in prior periods as HY2021: £19m, FY2021: £142m).

Note that for HY2021 and FY2021, borrowing costs include interest of £12m (HY2021) and £29m (FY2021) paid on the sterling-denominated RT1 notes. From 1 January 2022, these costs are treated as an appropriation of profit as and when the interest on the notes is paid. Further detail is provided in note A.2.

Project and other one off expenses include reinsurance fees and charitable contributions. For HY2022, project costs have been more than offset by the release of provisions relating to reinsurance fees.

Rothesay made economic losses in the period of £(512)m (economic profits HY2021: £72m, FY2021: £149m) **(APM)**. Economic profits/losses **(APM)** represent the change in value of assets from changes in economic conditions less the change in value of liabilities from those changes. In the first half of 2022, economic losses arose from the impact of rising interest rates and credit spread widening.

Financial performance

(Alternative analysis of profit generation) (APM)	**HY2022 £m**	HY2021 £m	FY2021 £m
New business profit (assuming assets fully invested)	**61**	111	213
Impact of temporarily being invested in gilts	**–**	(213)	(201)
Profit from investing prior year's premiums	**201**	279	547
Performance of in-force book	**487**	221	403
Non-economic assumption changes and model refinement	**–**	19	142
Acquisition and Group costs	**(71)**	(67)	(141)
Administration expenses	**(31)**	(28)	(59)
Operating profit before tax	**647**	322	904
Borrowing costs	**(49)**	(54)	(115)
Project and other one-off expenses	**3**	(11)	(25)
Economic (losses)/profits	**(512)**	72	149
IFRS profit before tax	**89**	329	913

Financial review
continued

IFRS statement of financial position highlights
The key line items in the consolidated statement of financial position for Rothesay are summarised in the table below:

Statement of financial position highlights	HY2022 £m	HY2021 £m	FY2021 £m
Financial investments	**81,489**	82,452	83,845
Reinsurance assets	**352**	503	641
Other assets	**2,318**	1,887	1,501
Total assets	**84,159**	84,842	85,987
Share capital and share premium	**1,485**	1,476	1,476
Tier 1 notes	**793**	347	793
Capital contribution reserve	**(81)**	(71)	(74)
Other reserves	**3,921**	3,380	3,854
Total equity	**6,118**	5,132	6,049
Insurance contract liabilities	**43,124**	53,457	54,030
Reinsurance liabilities	**1,136**	988	1,217
Payables and financial liabilities	**31,893**	23,702	22,853
Borrowings	**1,759**	1,428	1,725
Other	**129**	135	113
Total liabilities	**78,041**	79,710	79,938
Total equity and liabilities	**84,159**	84,842	85,987

Assets under management
Assets under management **(APM)**, which can be derived by adjusting total assets for reinsurance, payables, derivatives and collateralised financing, have decreased from £62.5bn at 31 December 2021 to £51.9bn as at 30 June 2022. They have fallen as a result of the increase in long-term interest rates, as well as credit spread widening, and, given our close matching of assets and liabilities, a similar movement can be seen in insurance contract liabilities. Total assets have not fallen by the same amount because the change in economic conditions led to a significant increase in the value of derivative assets which is offset by a similar increase in the value of derivative liabilities. A reconciliation of assets under management is provided in the notes on Alternative Performance Measures on page 57.

Insurance liabilities
Insurance contract liabilities reduced from £54.0bn as at 31 December 2021 to £43.1bn as at 30 June 2022. This move was largely driven by an increase in the valuation interest rate used to discount the liabilities, partially offset by the impact of new business net of the run-off of the liabilities (see note E.3(e)).

Changes in accounting standards
IFRS 17
IFRS 17, the accounting standard for insurance contracts, is due to be implemented on 1 January 2023. During the first half of 2022, the IFRS 17 project team has continued to make good progress. We have now largely determined the way in which we should interpret the standard in the context of our business. In the second half of 2022, we will develop the processes required to track IFRS 17 performance once the standard is effective as well as working towards finalising the IFRS 17 opening balance sheet. The IFRS 17 project is overseen by the Audit Committee.

The new standard will have 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. As a result, and in common with other annuity providers, we anticipate a material day one reduction in retained earnings when the standard is implemented due to the requirement to retrospectively apply IFRS 17 to historic business, followed by slower emergence of IFRS profit. The day one loss will not impact profit in the year of adoption but it will be reflected in the IFRS balance sheet. Adoption of the new standard is not expected to materially impact Rothesay's solvency position.

IFRS 9
Rothesay has taken the deferral option in relation to IFRS 9, the accounting standard for financial instruments, and will adopt the standard on the effective date of IFRS 17. IFRS 9 is expected to have relatively little impact on Rothesay as assets are already held at fair value.

Financial review

continued

Alternative Performance Measures

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

In the opinion of the Directors, the prescribed IFRS results and disclosures do not capture long-term value creation or changes to capital requirements and therefore do not fully reflect the performance of Rothesay.

Rothesay therefore uses a number of Alternative Performance Measures (APMs) which focus on value generation and capital strength. Further information on Rothesay's APMs can be found on page 57, including definitions, why the measure is used and, if applicable, how the APM can be reconciled to the nearest GAAP measure. Rothesay uses the symbol APM to highlight APMs throughout the financial statements.

Market consistent embedded value (APM)

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

Market consistent embedded value (APM)	HY2022 £m	HY2021 £m	FY2021 £m
Net worth of Rothesay Limited	**7,877**	6,558	7,774
Value of in-force business	**1,029**	2,174	2,019
Less: debt including RT1 notes	**(2,359)**	(2,015)	(2,697)
MCEV	**6,547**	6,717	7,096

As IFRS operating profits are generated, net worth increases and the value of in-force business decreases and this accounts for a significant part of the reduction in the value of in-force business over the period. The value of in-force business has also fallen as a result of the increase in long-term real interest rates. A movement analysis for the overall MCEV is provided in the table below.

Analysis of movement in MCEV	HY2022 £m	HY2021 £m	FY2021 £m
Opening MCEV	**7,096**	7,035	7,035
New business value	**78**	129	243
Management of in-force book	**85**	96	218
Operating MCEV earnings	**163**	225	461
Economic variances	**(657)**	(203)	(26)
Other non-operating variances	**(55)**	(340)	(374)
Total MCEV earnings	**(549)**	(318)	61
Closing MCEV	**6,547**	6,717	7,096

In the first half of 2022, MCEV was adversely impacted by the significant increase in long-term real interest rates and credit spread widening. Non-operating variances include one-off expenses, borrowing costs and, for 2021, the increase in assumed future corporation tax rates. Note that the embedded value generated from management of in-force book in the first half of 2022 and second half of 2021 are reduced by the impact of new longevity reinsurance.

Further information can be found in the notes on Alternative Performance Measures on page 57.

Risk and capital management

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

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

The risk management framework is intended to ensure that we identify and understand all of the risks inherent in the business. Where appropriate, longevity reinsurance, asset liability matching and hedging strategies are used to manage that risk and to optimise use of capital. We also look to mitigate credit risk through investing in assets that benefit from collateral and structural protections. Rothesay's liquidity position has remained robust throughout the period and we continue to hold significant liquidity buffers.

Except as discussed below, the principal risks remain unchanged from the year ended 31 December 2021.

Following their periodic reviews, RLP's insurance financial strength ratings have been reaffirmed as A3 by Moody's Investors Service and A+ by Fitch Ratings. RLP remains on positive outlook from Moody's.

Ukraine

The invasion of Ukraine by Russia continues to have devastating human and economic consequences for the region and has led to continuing volatility in the global macroeconomic environment.

As noted earlier, our market-leading risk management systems allow us to protect our balance sheet during adverse and volatile market conditions. We have very limited direct credit exposure to the region through our investment portfolio, but continue to carefully monitor and manage the wider macroeconomic implications of the conflict and associated sanctions imposed on Russia.

Inflation

The first half of 2022 has seen very significant increases in the rate of inflation and considerable focus on the cost-of-living crisis. From a balance sheet perspective, Rothesay is more exposed to projected long-term rates of inflation which have not seen such large movements. In addition, our approach to inflation hedging mitigates a large part of the impact on our balance sheet.

Despite the inflation hedging that we undertake, we are not completely insulated from the impact of inflation on the real economy and we have reviewed our investment portfolio to ensure that we are not overly exposed to counterparties that are themselves likely to be adversely impacted by inflation. We are also beginning to see costs coming under inflationary pressure both at Rothesay and for our strategic business partners and suppliers.

COVID-19

The fair value of our financial investments have largely returned to pre-COVID levels despite the continued economic disruption as a result of COVID-19.

It is still unclear as to whether COVID-19 will materially impact future mortality. In valuing our insurance and reinsurance assets and liabilities, we have allowed for reported deaths and have assumed no improvements in longevity for 2020, but we have not made any changes to our long-term mortality assumptions to allow for the impact of COVID-19 as we believe it is still too early to know what this might be and scenario analysis suggests a wide range of possible outcomes.

Solvency II reform

In April 2022, HM Treasury published its Review of Solvency II consultation following on from its earlier Call for Evidence and the Prudential Regulation Authority's Quantitative Impact Study. Rothesay responded to the consultation which closed on 21 July 2022. The proposed reforms are:

- a reduction in the risk margin of around 60-70% for long-term life insurers;
- a reassessment of the fundamental spread used in the calculation of the matching adjustment;
- changes to make more investments eligible for the matching adjustment to allow more investment in long-term assets; and
- a reduction in reporting and administrative requirements.

The Financial Services and Markets Bill 2022 is intended to give HM Treasury the powers to make the necessary regulatory changes. However, until detailed calibrations of the proposed changes are published, it is difficult to predict the likely impact of future reform on Rothesay's solvency position.

Risk and capital management
continued

Leasehold reform
The Leasehold Reform (Ground Rent) Act 2022 came into force on 30 June 2022. It prohibits ground rents for new, qualifying long residential leasehold properties in England and Wales but does not cover the extension of existing leases. The Act has not therefore had a significant impact on our loans secured on ground rents.

We continue to monitor developments in this sector to understand the implications of potential future reforms and we participate in consultations to ensure that our interests are protected for the benefit of our stakeholders.

Capital management
Rothesay aims to maintain solvency coverage in the range of 130% to 150% of the regulatory minimum solvency capital requirement (SCR).

We started the year with capital surplus well above our target operating range and Rothesay's solvency position has remained robust throughout the period despite considerable market volatility.

We operate a dynamic capital management framework which uses interest rate and other hedging to protect both the solvency position and the embedded value of the business. This is facilitated by our access to real-time solvency information.

As at 30 June 2022, Rothesay had an SCR coverage ratio **(APM)** of 248% (HY2021: 202%, FY2021: 226%), giving us significant excess capital to write new business. The solvency positions of the Group and RLP are summarised in the table below.

	Group			RLP		
Solvency position of the Group and RLP	**HY2022 unaudited £m**	HY2021 unauidited £m	FY2021 £m	**HY2022 unaudited £m**	HY2021 unauidited £m	FY2021 £m
Tier 1 capital	**6,865**	5,615	6,833	**6,952**	5,703	6,925
Tier 2 capital	**889**	966	948	**889**	966	948
Tier 3 capital	**457**	500	488	**457**	500	488
Own Funds **(APM)** available to meet SCR	**8,211**	7,081	8,269	**8,298**	7,169	8,361
SCR	**3,305**	3,508	3,657	**3,305**	3,508	3,657
Surplus above SCR	**4,906**	3,573	4,612	**4,993**	3,661	4,704
SCR coverage (APM)	**248%**	202%	226%	**251%**	204%	229%
SCR coverage without transitional solvency relief	**218%**	154%	179%	**220%**	157%	181%

Risk and capital management
continued

Given the significant change in economic conditions in the first half of 2022, the value of transitional solvency relief was recalculated on 30 June 2022. The impact of recalculation was to decrease the transitional solvency relief to £590m net of the associated impact of tax on Own Funds and allowing for amortisation of 6/16ths (FY2021: £1,091m allowing for amortisation of 5/16ths). Transitional solvency relief has fallen as long-term interest rates have increased and now covers 41% of the risk margin (FY2021: 50%).

Rothesay's SCR is calculated using a partial internal model (PIM). The PIM means that Rothesay's bespoke models are used for calculation of credit and counterparty risk capital and ensures 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. The PIM was originally approved for use from 31 December 2018 and updated during 2019 to reflect feedback received from the Prudential Regulation Authority (PRA) and to cover investments in Dutch mortgages.

Work continues on a full internal model, extending the PIM to cover other risk components, but for now the standard formula is used to calculate the SCR for all other risk components and for aggregation across risk components. The following table provides a breakdown of the SCR, post-diversification benefit, between modules. Insurance risk relates mainly to longevity risk. Market risk is dominated by spread risk, i.e. the risk that credit spreads widen. The change in the composition of the SCR during 2022 reflects the significant increase in long-term interest rates as well as the impact of additional longevity reinsurance.

Composition of SCR (%)	HY2022	HY2021	FY2021
Market risk	**70**	62	64
Insurance risk	**17**	26	24
Operational risk	**6**	6	6
Counterparty risk	**7**	6	6

Risk and capital management
continued

An analysis of the change in surplus above SCR **(APM)** is shown in the table below. Surplus above SCR has increased as a result of increases in real interest rates from £4,612m to £4,906m after allowing for amortisation of 1/16th of transitional solvency relief 1 January 2022.

Given the impact of the Loss Absorbing Capacity of Deferred Taxes (LACDT) adjustment when IFRS profitability varies from year to year, we have adjusted the analysis to allow for LACDT effects. Differences between IFRS accounting standards and Solvency II mean that management actions and changes in economic conditions can have very different impacts on the two bases. All numbers are shown net of tax impacts and allow, where relevant, for changes in transitional solvency relief.

Change in surplus	HY2022 £m	HY2021 £m	FY2021 £m
Opening surplus	**4,612**	**3,654**	**3,654**
Amortisation of 1/16th of transitional on 1 January	**(133)**	(133)	(133)
New business (on a fully invested basis)	**(64)**	(166)	(172)
Impact of temporarily being invested in gilts	**–**	5	120
Impact from investing prior year's premiums	**(120)**	(32)	51
Performance of in-force book	**308**	307	603
Non-economic assumption changes	**–**	19	135
Acquisition costs and administration expenses	**(102)**	(95)	(200)
Operating surplus generation	**(111)**	**(95)**	**404**
Borrowing costs	**(59)**	(54)	(115)
Non-recurring and project expenditure	**3**	(11)	(25)
Economic conditions	**530**	174	82
Impact of LACDT	**(69)**	(140)	(100)
Impact of not recalculating transitional	**N/A**	45	N/A
New capital issuance	**–**	–	712
Surplus generation	**294**	**(81)**	**958**
Closing surplus	**4,906**	**3,573**	**4,612**

Viability and going concern

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

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

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

Rothesay's own views of risk and associated capital requirements have been investigated through the Own Risk and Solvency Assessment (ORSA), including consideration of the way in which future changes to Rothesay's risk profile and also external influences may impact on the Group's solvency needs and ability to execute the business plan. The ORSA, approved by the Board in January 2022, considers risks across a five-year time horizon and therefore it is felt appropriate for the viability assessment to be considered across the same time horizon. Rothesay recognises that the Group has policyholder liabilities which extend beyond the five-year horizon but considers that year-by-year projections beyond the five-year period are likely to be unreliable given everything that might happen in that time. However, given the projected financial position of the Company in five years' time on a range of scenarios, the Board does not consider there to be any going concern or viability issues beyond this time frame.

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

Given the dynamic nature of the market, the strategic business plan is based on a shorter period of three years and is prepared on a rolling basis and reviewed and approved annually by the Board. The last business plan was reviewed and approved in December 2021. The business plan is refreshed if there are material changes to the business model or market environment. The business plan is centred around Rothesay's projected new business targets, with assumptions about pricing, reinsurance, investment strategy, revenue generation, expenses and leverage based on Rothesay's existing business and target operating model. In certain scenarios where there is very material new business growth, the plan also assumes that new equity would be provided by our shareholders. IFRS pre-tax profits are driven by two key sources: new business profitability and profit emergence on the Rothesay back-book.

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

Report of the Directors

The Directors present their condensed consolidated financial statements for Rothesay Limited, registered number 08668809, (the Company) for the period ended 30 June 2022. Rothesay Limited is the ultimate holding company of the Rothesay group of companies. Rothesay Limited is a registered limited company incorporated and domiciled in the United Kingdom.

Comparative information has been presented for the period ended 30 June 2021 and the year ended 31 December 2021.

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

- An indication of important events that have occurred during the six months ended 30 June 2022 and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related-party transactions in the six months ended 30 June 2022 and any material changes in the related-party transactions described in the last Annual Report.

During 2022 and up to the date of this report, the following changes to the Board took place:

- Jane Hanson and Ray King stood down from the Board on 30 June 2022;
- Jackie Hunt and Angela Darlington were appointed to the Board on 12 July 2022 and 1 August 2022 respectively.

The financial statements were authorised for issue by the Board of Directors on 11 August 2022.

ON BEHALF OF THE BOARD

Addy Loudiadis
Chief Executive Officer
11 August 2022

Rothesay Limited

Board of Directors

Chairman
Naguib Kheraj

Executive Directors
Addy Loudiadis
Tom Pearce
Andrew Stoker

Shareholder Non-Executive Directors
Tim Corbett
Robin Jarratt

Independent Non-Executive Directors
Stan Beckers
Angela Darlington
Ed Giera
Jackie Hunt
Heather Jackson
Terry Miller
Charles Pickup
Bill Robertson

Section

3 Financial statements

Financial Statements

Condensed consolidated statement of comprehensive income

FOR THE PERIOD ENDED 30 JUNE 2022

	Note	**HY2022 £m**	HY2021 £m	FY2021 £m
Income				
Gross premiums written	B.1	**1,131**	1,729	3,205
Premiums ceded to reinsurers		**(1,067)**	(795)	(1,636)
Net premiums written		**64**	934	1,569
Investment return	B.2	**(10,106)**	(1,474)	48
Total revenue		**(10,042)**	(540)	1,617
Expenses				
Policyholder claims		**(1,419)**	(1,392)	(2,901)
Less: reinsurance recoveries		**1,009**	740	1,521
Change in insurance contract liabilities	E.3	**10,906**	1,790	1,216
Change in the reinsurers' share of insurance contract liabilities	E.1	**(208)**	(108)	(198)
Net claims and change in insurance liabilities		**10,288**	1,030	(362)
Acquisition and administration expenses	B.3	**(99)**	(106)	(225)
Finance costs	B.4	**(58)**	(55)	(117)
Total expenses		**10,131**	869	(704)
Profit before tax		**89**	329	913
Income tax expense	B.5	**(17)**	(62)	(174)
Profit for the financial period/year		**72**	267	739

	Note	**HY2022 £m**	HY2021 £m	FY2021 £m
Profit for the financial period/year		**72**	267	739
Other comprehensive income				
Items that are or may be reclassified to profit or loss:		**–**	–	–
Cash flow hedges:				
Fair value (losses)/gains during the year	C.3	**(3)**	–	1
Total comprehensive income for the period/year		**69**	267	740

All income and expenses are related to continuing operations.

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

Condensed consolidated statement of financial position

AS AT 30 JUNE 2022

	Note	HY2022 £m	HY2021 £m	FY2021 £m
Assets				
Property, plant and equipment	D.1	**15**	7	11
Lease – right of use asset	I.3	**33**	32	30
Financial investments	D.2	**81,489**	82,452	83,845
Deferred tax asset	G.1	**2**	–	3
Reinsurance assets	E.1	**352**	503	641
Accrued interest and prepayments		**604**	583	641
Receivables		**1,179**	859	463
Cash and cash equivalents		**485**	406	353
Total assets		**84,159**	84,842	85,987
Equity and liabilities				
Equity				
Share capital	C.1	**3**	3	3
Tier 1 notes	C.2	**793**	347	793
Employee benefit trust	C.1	**(63)**	(72)	(72)
Hedging reserve	C.3	**(2)**	–	1
Share premium	C.3	**1,545**	1,545	1,545
Capital contribution reserve	C.3	**(81)**	(71)	(74)
Translation reserve	C.3	**1**	–	–
Other reserves	C.3	**3,922**	3,380	3,853
Total equity		**6,118**	5,132	6,049
Liabilities				
Reinsurance liabilities	E.1	**1,136**	988	1,217
Insurance contract liabilities	E.3	**43,124**	53,457	54,030
Payables and financial investment liabilities	D.3	**31,893**	23,702	22,853
Leasehold liabilities	I.3	**45**	41	42
Borrowings	D.4	**1,759**	1,428	1,725
Deferred tax iabilites	G.1	**–**	1	–
Accruals and deferred income		**84**	93	71
Total liabilities		**78,041**	79,710	79,938
Total equity and liabilities		**84,159**	84,842	85,987

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

The financial statements were approved by the Board of Directors on 11 August 2022 and signed on its behalf by:

Addy Loudiadis
Chief Executive Officer
11 August 2022

Company number 08668809

Condensed consolidated statement of changes in equity

FOR THE PERIOD ENDED 30 JUNE 2022

	Share capital £m	Share premium £m	Tier 1 notes £m	Capital contribution reserve £m	Profit and loss reserve £m	Hedging reserve £m	Reorganisation reserve £m	Translation reserve £m	Employee benefit trust £m	Total equity £m
As at 1 January 2022	3	1,545	793	(74)	3,721	1	132	–	(72)	6,049
Profit for the period	–	–	–	–	72	–	–	–	–	(72)
Currency translation	–	–	–	–	–	–	–	1	–	1
Tier 1 note coupon	–	–	–	–	(10)	–	–	–	–	(10)
Tier 1 coupon tax relief	–	–	–	–	2	–	–	–	–	2
Other comprehensive income for the period	–	–	–	–	–	(3)	–	–	–	(3)
Employee benefit trust	–	–	–	–	5	–	–	–	9	14
Capital contribution	–	–	–	(7)	–	–	–	–	–	(7)
As at 30 June 2022	**3**	**1,545**	**793**	**(81)**	**3,790**	**(2)**	**132**	**1**	**(63)**	**6,118**

FOR THE PERIOD ENDED 30 JUNE 2021

	Share capital £m	Share premium £m	Tier 1 notes £m	Capital contribution reserve £m	Profit and loss reserve £m	Hedging reserve £m	Reorganisation reserve £m	Employee benefit trust £m	Total equity £m
As at 1 January 2021	3	1,545	347	(46)	2,971	–	132	(77)	4,875
Profit for the period	–	–	–	–	267	–	–	–	267
Employee benefit trust	–	–	–	(13)	10	–	–	5	2
Capital contribution	–	–	–	(12)	–	–	–	–	(12)
As at 30 June 2021	3	1,545	347	(71)	3,248	–	132	(72)	5,132

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital £m	Share premium £m	Tier 1 notes £m	Capital contribution reserve £m	Profit and loss reserve £m	Hedging reserve £m	Reorganisation reserve £m	Employee benefit trust £m	Total equity £m
As at 1 January 2021	3	1,545	347	(46)	2,971	–	132	(77)	4,875
Profit for the financial year	–	–	–	–	739	–	–	–	739
IFRS 2 adjustment	–	–	–	–	2	–	–	–	2
Other comprehensive income for the year	–	–	–	–	–	1	–	–	1
Issuance of RT1 notes	–	–	446	–	–	–	–	–	446
Employee benefit trust	–	–	–	(11)	9	–	–	5	3
Capital contribution	–	–	–	(17)	–	–	–	–	(17)
As at 31 December 2021	3	1,545	793	(74)	3,721	1	132	(72)	6,049

Condensed consolidated cash flow statement

FOR THE PERIOD ENDED 30 JUNE 2022

	Note	**HY2022 £m**	HY2021 £m	FY2021 £m
Cash flows from operating activities				
Profit for the period/year		**72**	267	739
Adjustments for non-cash movements in net profit for the financial period				
Hedging reserve	C.3	**(3)**	–	1
Currency translation		**1**	–	–
FX on USD borrowings		**32**	–	–
IFRS 2 adjustment		**—**	–	2
Depreciation	D.1	**1**	1	2
Amortisation of debt costs	B.4	**2**	2	8
Leasehold depreciation	I.3	**2**	2	4
Financing charge on leasehold	I.3	**1**	1	1
Employee Benefit trust		**14**	(9)	(14)
Share based payments		**(7)**	–	–
Interest income	B.2	**(796)**	(716)	(1,445)
Interest expense	B.4	**46**	52	106
Income tax expense	B.5	**16**	63	172
Net decrease/(increase) in operational assets				
Financial investments	D.2	**2,356**	11,260	9,867
Deferred tax	G.1	**1**	6	2
Reinsurance asset	E.1	**289**	113	(25)
Receivables		**(689)**	69	465
Prepayment		**17**	4	6
Net (decrease)/increase in operational liabilities				
Insurance contract liabilities	E.1	**(10,906)**	(1,790)	(1,217)
Reinsurance liabilities	E.1	**(81)**	(5)	224
Financial investment liabilities	D.3	**7,164**	(9,518)	(10,151)
Other payables	D.3	**1,884**	(362)	(542)
Accruals and deferred income		**(10)**	(8)	(8)
Cash flows used in operating activities		**(594)**	(568)	(1,803)
Interest paid		**(24)**	(24)	(99)
Interest received		**816**	793	1,460
Tax paid		**(49)**	(87)	(229)
Net cash flows generated from/(used in) operating activities		**149**	114	(671)
Cash flows used in financing activities				
Coupon on tier one note		**(10)**	–	–
Proceeds from issuance of Tier 1 notes (net of issuance costs)	C.2	**—**	–	446
Proceeds from issuance of debt (net of issuance costs)	D.4	**—**	–	290
Net cash flows (used in)/ generated from financing activites		**(10)**	–	736
Net cash outflows used in investing activities				
Acquisition of property, plant and equipment	D.1	**(6)**	(1)	(5)
Cash flow on leasehold	I.3	**(1)**	–	–
Net cash outflows used in investing activities		**(7)**	(1)	(5)
Net increase in cash and cash equivalents		**132**	113	60
Cash and cash equivalents at 1 January		**353**	293	293
Cash and cash equivalents at 30 June/31 December		**485**	406	353

Notes to the condensed financial statements

Note A – Significant accounting policies

A.1 Basis of preparation and consolidation

The condensed consolidated interim financial statements of Rothesay for the six-month period ended 30 June 2022 have been prepared and approved by the Directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and UK adopted international accounting standards. The accounts have been prepared in accordance with IAS 34, 'Interim Financial Reporting'. The condensed consolidated interim financial statements do not include all of the notes included in the annual financial report. Accordingly, this report should be read in conjunction with the annual report and accounts for the year ended 31 December 2021, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and UK adopted international accounting standards.

The Directors have considered the appropriateness of adopting the going concern basis for the preparation of the interim financial statements. The Board has considered forward-looking scenarios intended to test the impact of stresses and scenarios that may impact Rothesay's ability to execute it's business plan. The results demonstrate the robustness of Rothesay's solvency. Management and the Board believe Rothesay is well capitalised on both a regulatory and economic capital basis and therefore the Board believes it is appropriate to continue to adopt the going concern basis of accounting (see viability and going concern section).

The condensed consolidated interim financial statements of Rothesay are presented in sterling (£) rounded to the nearest million (£m) except where otherwise stated.

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

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

There is no seasonality or cyclicality in Rothesay's business operation.

A.2 Accounting policies and change in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. Historically, interest on the RT1 notes classified as equity has been incorrectly included in interest payable on third party borrowings, from 1 January 2022 this has been accounted for as an appropriation of equity, net of tax, consistent with the relevant accounting standard (see note B.4). This matter is considered to be immaterial and therefore a prior year reclassification has not been made. Rothesay has not adopted any new standards or any changes to existing standards, including matters of significant judgement and use of estimates. The accounting policies of Rothesay can be found in the 2021 Annual report and accounts.

Notes to the condensed financial statements
continued

Note B – Income statement notes
B.1 Segmental analysis
All of Rothesay's business risks and returns are within one business segment (i.e. long-term insurance business). This includes the premiums generated on inwards reinsurance contracts. Rothesay's insurance operations are within the United Kingdom. The split between regular premiums and single premiums is shown below:

	Regular premiums			Single premiums		
	HY2022 £m	HY2021 £m	FY2021 £m	**HY2022 £m**	HY2021 £m	FY2021 £m
Pension bulk annuities	**127**	127	253	**1,004**	1,602	2,952
Total gross premiums written	**127**	127	253	**1,004**	1,602	2,952

Regular premiums are paid over the term of the longevity-only insurance policies written by Rothesay. Single premiums are one-off payments relating to bulk annuity contracts and inwards reinsurance.

Rothesay conducts a relatively small number of individual transactions each year. These transactions are generally one-off in nature and Rothesay's business plans do not anticipate conducting a large amount of repeat business.

B.2 Investment return
Investment (loss)/return includes fair value gains and losses. Interest is accounted for on an accrual basis.

	HY2022 £m	HY2021 £m	FY2021 £m
Interest income on financial investments at fair value through profit and loss	**796**	716	1,445
Unrealised losses on financial investments	**(9,582)**	(2,670)	(1,564)
Realised (losses)/gains on financial investments	**(1,282)**	509	237
Investment management expenses	**(38)**	(29)	(70)
Total investment (loss)/return	**(10,106)**	(1,474)	48

Given our approach to asset and liability matching, the realised and unrealised losses on financial investments in the period were matched by similar movements in net insurance liabilities. The movements were driven by the increase in long-term interest rates over the period and credit spread widening.

The increase in investment management expenses reflects the growth in Rothesay's investment activity.

B.3 Acquisition and administration expenses
Acquisition and administration expenses can be broken down as follows:

	HY2022 £m	HY2021 £m	FY2021 £m
Acquisition and Group costs	**71**	67	141
Administration expenses – recurring	**31**	28	59
Administration expenses – project and other one-off expenses	**(3)**	11	25
Total operating expense	**99**	106	225

Acquisition and Group costs increased as a result of the growth in the business.

Project and one off expenses include reinsurance fees and charitable contributions. Projects include the development of Rothesay's IT platform, the costs associated with the adoption of IFRS 17 and development activity by our third party administrators. For HY2022, project costs have been more than offset by the release of provisions relating to reinsurance fees.

Notes to the condensed financial statements
continued

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

	HY2022 £m	HY2021 £m	FY2021 £m
Interest payable on collateral	**4**	–	1
Interest payable on collateralised agreements and financing	**5**	1	1
Total interest payable on collateral and collateralised agreements	**9**	1	2
Interest payable on borrowings from related parties	**9**	9	19
Interest payable on third party borrowings	**39**	44	95
Financing charge on leasehold asset	**1**	1	1
Total borrowing costs	**49**	54	115
Net finance costs	**58**	55	117

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

For HY2021 and FY2021, the interest payable on third party borrowings included interest of £12m (HY2021) and £29m (FY2021) paid on the sterling-denominated RT1 notes. From 1 January 2022, this will be treated as an appropriation of profit as and when the interest on the notes is paid, as shown in note C.3 (see note A.2).

B.5 Income tax expense
The major components of income tax expense for the periods ended 30 June 2022 and 30 June 2021 and the financial year ended 31 December 2021 are:

	HY2022 £m	HY2021 £m	FY2021 £m
Current income tax:			
UK corporation tax	**15**	63	172
Prior year adjustment	**1**	5	–
Total current income tax	**16**	68	172
Deferred tax:			
Origination and reversal of temporary differences	**1**	(6)	2
Total deferred tax	**1**	(6)	2
Total tax expense in the condensed consolidated statement of comprehensive income	**17**	62	174

Notes to the condensed financial statements
continued

Note B – Income statement notes (continued)
B.5 Income tax expense (continued)
The tax expense in the condensed consolidated statement of comprehensive income for the financial period and the standard rate of corporation tax in the UK of 19% (HY2021: 19%, FY2021: 19%) is reconciled below:

	HY2022 £m	HY2021 £m	FY2021 £m
Profit on ordinary activities before taxation	**89**	329	913
Tax calculated at UK standard rate of corporation tax of 19% (2021: 19%)	**17**	63	174
Prior year adjustment	**1**	5	–
Disallowable expenditure	**–**	–	1
Other adjustments	**(1)**	(6)	(1)
Total tax expense reported in the condensed consolidated statement of comprehensive income	**17**	62	174

During May 2021 the UK Government enacted an increase to the rate of UK corporation tax from 19% to 25% which will apply from 1 April 2023. As a result of this, Rothesay has amended its deferred taxation calculations to take account of the rate increase.

Notes to the condensed financial statements
continued

Note C – Equity
C.1 Share capital
At 30 June 2022, 30 June 2021 and 31 December 2021 the share capital of Rothesay Limited comprised:

	HY2022		HY2021		FY2021	
	No.	**£m**	No.	£m	No.	£m
Ordinary share capital of £0.002 each	**1,547,867,965**	**3.1**	1,547,867,965	3.1	1,547,867,965	3.1
Ordinary share capital of £0.001 each	**1**	**–**	1	–	1	–
Authorised and issued share capital	**1,547,867,966**	**3.1**	1,547,867,966	3.1	1,547,867,966	3.1

No changes have been made to equity share capital in 2021 or in the first half of 2022.

The ordinary shares issued are analysed into the following categories:

	HY2022		**HY2021**		**FY2021**	
	No.	**£m**	No.	£m	No.	£m
A £0.002 ordinary	**1,513,673,632**	**3.0**	1,513,673,632	3.0	1,513,673,632	3.0
B £0.002 ordinary	**34,194,333**	**0.1**	34,194,333	0.1	34,194,333	0.1
D £0.001	**1**	**–**	1	–	1	–
Total	**1,547,867,966**	**3.1**	1,547,867,966	3.1	1,547,867,966	3.1

The A and B shares entitle the holder to participate in dividends. All ordinary shares entitle the holder to share in the proceeds of the winding up of the Company in proportion to the number of, and amounts paid on, the shares held. Only the A and D shares have full voting rights. The B ordinary shares have limited voting rights. All classes of shares have been fully paid.

Employee benefit trusts
The Rothesay Employee Share Trust (the Trust) was established to purchase and hold shares of the Company for delivery of employee share schemes. Shares owned by the Trust are included at cost in the condensed consolidated statement of financial position and are shown as a deduction from shareholders' equity. They are disclosed as employee scheme shares until they vest. The table below provides an analysis of the movement in the number of B ordinary shares held by the Trust.

Number of shares	**HY2022 No.**	HY2021 No.	FY2021 No.
At 1 January	**23,574,764**	23,309,516	23,309,516
Shares acquired from employees	**3,000,064**	524,426	531,648
Shares purchased by employees	**(4,819,277)**	–	–
Shares transferred to the ESIP Trust	**(263,115)**	(266,400)	(266,400)
Shares issued to employees as RSUs vest	**(288,099)**	–	–
At financial statement date	**21,204,337**	23,567,542	23,574,764

During the first half of 2022, the Trust acquired 530 B ordinary shares from employees leaving employment.

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

Notes to the condensed financial statements
continued

Note C – Equity (continued)
C.1 Share capital (continued)
Employee benefit trusts (continued)
During 2021, the Trust acquired 531,648 B ordinary shares from employees leaving employment.

During March 2020, the Company established a new employee share plan for all UK employees called the Rothesay Life UK Employee Share Incentive Plan (ESIP). The plan has been structured to operate within specific rules set by HM Revenue & Customs. A new employee benefit trust was established to support the ESIP (the ESIP Trust). The Trust transferred 263,115 shares to the ESIP Trust on 31 March 2022 (2021: 266,400 shares). These shares are held on trust for participating employees in accordance with the ESIP rules. Shares owned by the ESIP Trust are included at cost in the condensed consolidated statement of financial position and are shown as a deduction from shareholders' equity. They are disclosed as employee scheme shares until they are withdrawn. The table below provides an analysis of the movement in the number of B ordinary shares held by the ESIP Trust.

Number of shares	**HY2022 No.**	HY2021 No.	FY2021 No.
At 1 January	**492,300**	226,800	226,800
Shares forfeited by employees	**–**	–	(900)
Shares transferred from the Trust	**263,115**	266,400	266,400
At financial statement date	**755,415**	493,200	492,300

C.2 Restricted Tier 1 notes – sterling
Under IFRS, the sterling-denominated Restricted Tier 1 (RT1) notes meet the definition of equity and are therefore recognised as such. The USD-denominated RT1 notes do not meet this definition and are recognised as borrowings (see note D.4).

The table below provides a summary of Rothesay's sterling-denominated RT1 notes:

				Carrying amount		
Notional amount	Issue date	Callable at par at the option of the Group from	Coupon	**HY2022 £m**	HY2021 £m	FY2021 £m
Loan notes issued through public debt markets						
£350m	5 September 2018	5 September 2028	6.875%	**347**	347	347
£450m	13 October 2021	13 October 2031	5%	**446**	–	446
				793	347	793

On 13 October 2021, Rothesay issued £450m of Restricted Tier 1 notes with a fixed 5% coupon payable semi-annually in arrears. The notes were issued through the public debt markets. The notes were initially recognised at the fair value of the consideration received less transaction costs directly attributable to the issuance.

The notes are callable on or after 13 October 2031. If the notes are not repaid by 13 April 2032, the fixed rate of interest per annum will be reset. The notes are direct, unsecured and subordinated obligations of the issuer.

Rothesay has the option to cancel the coupon payment on all RT1 notes which becomes mandatory upon breach or non-compliance with RLP's SCR, a breach of the minimum capital requirement (MCR) or where Rothesay has insufficient distributable reserves.

Notes to the condensed financial statements

continued

Note C – Equity (continued)

C.2 Restricted Tier 1 notes – sterling (continued)

The full principal amount of each note is irrevocably and automatically reduced to zero on a permanent basis if RLP determines at any time that:

(i) eligible Own Fund items are less than or equal to 75% of the SCR;

(ii) eligible Own Fund items are less than or equal to 100% of the MCR; or

(iii) a breach of the SCR has occurred and has not been remedied within three months.

then either:

(i) in the case of the £350m of RT1 notes (issued on 5 September 2018), the full principal amount of each note issued is irrevocably and automatically reduced to zero on a permanent basis; or

(ii) in the case of the £450m of RT1 notes (issued on 13 October 2021) the notes convert into a new class B of non-voting ordinary shares of RLP.

C.3 Share premium account and reserves

	Share premium £m	Capital contribution reserve £m	Employee benefit trust £m	Profit and loss reserve £m	Hedging reserve £m	Translation reserve £m	Reorganisation reserve £m
1 January 2022	**1,545**	**(74)**	**(72)**	**3,721**	**1**	**–**	**132**
Profit to the financial period	**–**	**–**	**–**	**72**	**–**	**–**	**–**
Other comprehensive income for the period	**–**	**–**	**–**	**–**	**(3)**	**–**	**–**
Currency translation	**–**	**–**	**–**	**–**	**–**	**1**	**–**
RT1 note coupon	**–**	**–**	**–**	**(10)**	**–**	**–**	**–**
RT1 coupon tax relief	**–**	**–**	**–**	**2**	**–**	**–**	**–**
Employee benefit trust	**–**	**–**	**9**	**5**	**–**	**–**	**–**
Capital contribution	**–**	**(7)**	**–**	**–**	**–**	**–**	**–**
30 June 2022	**1,545**	**(81)**	**(63)**	**3,790**	**(2)**	**1**	**132**

Note that for HY2021 and FY2021, the interest payable on the sterling-denominated RT1 notes was included in finance costs (see note B.4) rather than as an appropriation of profit (see note A.2).

	Share premium £m	Capital contribution reserve £m	Employee benefit trust £m	Profit and loss reserve £m	Hedging reserve £m	Translation reserve £m	Reorganisation reserve £m
1 January 2021	1,545	(46)	(77)	2,971	–	–	132
Profit for the financial period	–	–	–	267	–	–	–
Employee benefit trust	–	(13)	5	10	–	–	–
Capital contribution	–	(12)	–	–	–	–	–
30 June 2021	1,545	(71)	(72)	3,248	–	–	132

Notes to the condensed financial statements
continued

Note C – Equity (continued)
C.3 Share premium account and reserves (continued)

	Share premium £m	Capital contribution reserve £m	Employee benefit trust £m	Profit and loss reserve £m	Hedging reserve £m	Translation reserve £m	Reorganisation reserve £m
1 January 2021	1,545	(46)	(77)	2,971	–	–	132
Profit for the financial year	–	–	–	739	–	–	–
IFRS 2 adjustment	–	–	–	2	–	–	–
Other comprehensive income for the year	–	–	–	–	1	–	–
Employee benefit trust	–	(11)	5	9	–	–	–
Capital contribution	–	(17)	–	–	–	–	–
31 December 2021	1,545	(74)	(72)	3,721	1	–	132

Hedging reserve
A foreign currency exposure arises on the RT1 notes issued in US dollars and the associated coupon payments (see note D.4). The risk arises from the fluctuation in exchange rates, which would cause volatility in the biannual coupon payments and the principal repayment at the call date.

A cash-flow hedge has therefore been put in place to remove the volatility caused by exchange rate movements, using a bespoke fixed-for-fixed cross currency swap. The swap is designated as a hedge of a probable forecasted transaction, being the foreign currency sterling costs of the coupons and principal. As the hedging instrument is a bespoke derivative any ineffectiveness is expected to be immaterial.

We have not provided additional disclosures in relation to the cash-flow hedges as the fair value of the hedges was only £37m as at 30 June 2022 (HY2021: £nil, FY2021: £7m) which is not material in the context of Rothesay's total derivative position.

C.4 Dividends on ordinary shares
The Directors have recommended no payment of interim dividends during the period ended 30 June 2022 (HY2021: £nil; FY2021: £nil). The Directors have recommended no final ordinary dividend in respect of the year ended 31 December 2021.

Notes to the condensed financial statements

continued

Note D – Financial assets and liabilities

D.1 Property, plant and equipment

	Software £m	Computer equipment £m	Furniture and fittings £m	Total £m
Cost				
As at 1 January 2022	**4**	**–**	**10**	**14**
Additions	**5**	**–**	**–**	**5**
As at 30 June 2022	**9**	**–**	**10**	**19**
Accumulated depreciation				
As at 1 January 2022	**–**	**–**	**3**	**3**
Charge for the year	**–**	**–**	**1**	**1**
As at 30 June 2022	**–**	**–**	**4**	**4**
Net book value				
As at 30 June 2022	**9**	**–**	**6**	**15**
As at 31 December 2021	**4**	**–**	**7**	**11**

Rothesay capitalises expenses incurred in relation to the development of the Group's IT platform in accordance with IAS 38.

D.2 Financial investments

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

	HY2022 £m	HY2021 £m	FY2021 £m
Financial investments carried at fair value through profit and loss, designated at initial recognition	**81,489**	82,452	83,845

Determination of fair value and fair value hierarchy

Rothesay uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: inputs are unadjusted quoted prices in active markets to which Rothesay had access at the measurement date for identical unrestricted assets and liabilities;
- Level 2: inputs to valuation techniques are observable either directly or indirectly; and
- Level 3: one or more inputs to valuation techniques are significant and unobservable.

The fair value of certain debt securities classified as Level 3 instruments is determined using inputs that are not based on observable market data. One of the most significant inputs is liquidity premiums. The valuation model discounts future cash flows using interest rate swap curves in addition to a spread to reflect the associated credit risk and liquidity premiums.

Climate change

When assessing the fair value of our Level 3 financial investments, we consider and allow for the extent to which the investments may be vulnerable to climate change, either because of vulnerability to physical climate risk or the risk of being stranded assets in the drive to net-zero carbon emissions. The valuation of Level 1 and Level 2 financial investments is also assumed to allow for climate change exposure.

Notes to the condensed financial statements
continued

Note D – Financial assets and liabilities (continued)
D.2 Financial investments (continued)
The following tables show an analysis of financial investments recorded at fair value by level of the fair value hierarchy for HY2022, HY2021 and FY2021 (please refer to note D.3 for financial liabilities):

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

30 June 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Collective investment schemes	5,037	–	–	5,037
Government sub sovereign and agency obligations	7,690	9,816	–	17,506
Corporate bonds and other corporate debt	–	24,966	1,161	26,127
Derivative assets	–	17,408	3,374	20,782
Collateralised agreements and financing	–	1,176	–	1,176
Loans secured on property	–	109	7,032	7,141
Equity release mortgages	–	–	4,496	4,496
Certificate of deposits	–	187	–	187
Total financial investments at fair value	12,727	53,662	16,063	82,452

31 December 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Collective investment schemes	5,405	–	–	5,405
Government sub sovereign and agency obligations	8,356	9,773	–	18,129
Corporate bonds and other corporate debt	–	25,265	1,092	26,357
Derivative assets	–	17,048	3,721	20,769
Collateralised agreements and financing	–	262	–	262
Loans secured on property	–	107	7,304	7,411
Equity release mortgages	–	–	5,329	5,329
Certificate of deposits	–	183	–	183
Total financial investments at fair value	13,761	52,638	17,446	83,845

Rothesay discloses offsetting derivative asset and derivative liability contracts separately in line with IAS 32 requirements and the value of both has increased significantly in the period due to changes in economic conditions. However, the movement in the value of derivative assets is offset by the movement in the value of derivative liabilities such that on a net basis the value of derivatives fell by £463m in the first half of 2022 (HY2021: fell by £634m, FY2021: fell by £260m).

Collective investment schemes represent money market funds with same-day liquidity.

Approximately 18% (HY2021: 19%, FY2021: 21%) of the total financial assets recorded at fair value are valued based on estimates and recorded as Level 3 investments.

Notes to the condensed financial statements

continued

Note D – Financial assets and liabilities (continued)

D.2 Financial investments (continued)

The following table shows a reconciliation of the opening and closing recorded amounts in relation to the Level 3 financial instruments recorded at fair value (excluding equity release mortgages which are discussed in the equity release mortgages section of note D.2 below):

	Corporate debt £m	Loans secured on property £m	Derivative assets £m	Total £m
At 1 January 2022	**1,092**	**7,304**	**3,721**	**12,117**
Total gains in the statement of comprehensive income:				
Unrealised losses	**(90)**	**(1,564)**	**(1,261)**	**(2,915)**
Realised gains	**7**	**6**	**–**	**13**
Transfer out of Level 3	**–**	**–**	**–**	**–**
Net purchases/additions	**(233)**	**(78)**	**–**	**(311)**
At 30 June 2022	**776**	**5,668**	**2,460**	**8,904**
At 1 January 2021	1,186	6,523	3,555	11,264
Total gains in the statement of comprehensive income:				
Unrealised (losses)/gains	(24)	281	(181)	76
Net purchases/addition	(1)	228	–	227
At 30 June 2021	1,161	7,032	3,374	11,567
At 1 January 2021	1,186	6,523	3,555	11,264
Total gains in the statement of comprehensive income:				
Unrealised (losses)/gains	(42)	567	166	691
Realised gains	–	21	–	21
Transfer out of Level 3	(55)	–	–	(55)
Net purchases/addition	3	193	–	196
At 31 December 2021	1,092	7,304	3,721	12,117

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

Rothesay's policy is to determine the relevant categorisation of financial assets and liabilities at least annually and, where availability of inputs has changed, transfers will be made between levels. No financial assets were transferred from Level 2 to Level 3 during the year (HY2021: £Nil, FY2021: £Nil). £Nil of corporate debts were transferred from Level 3 to Level 2 in the first half of 2022 (HY 2021: £Nil, FY2021: £55m).

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

Notes to the condensed financial statements
continued

Note D – Financial assets and liabilities (continued)
D.2 Financial investments (continued)
Equity release mortgages
Equity release mortgages allow the borrowers to take equity from their homes either as a lump sum or in smaller, regular amounts. The total amount, capital plus interest, is repaid when the borrower dies or moves into long-term care. All equity release mortgage loans provide a 'no negative equity guarantee' (NNEG), which means that the mortgage repayment amounts (loan principal plus interest on redemption) are subject to a maximum of the sale proceeds of the property on which the loan is secured.

Equity release mortgages are valued using a discounted cash flow model by projecting future net cash flows on a closed form basis allowing for demographic assumptions, consistent with those used for insurance contracts adjusted for transfer to long-term care, prepayment rates, future expenses and potential cost of providing the NNEG. Cash flows are then discounted at a risk-free rate plus liquidity premium inferred from market-observed levels.

The NNEG can be thought of as a series of options written by Rothesay which allow the equity release mortgage holders to extinguish their loan by selling their property back to Rothesay at the current market value and at the point at which the mortgage must be redeemed (typically on death or transfer to long-term care), even when property values are lower than the outstanding loan balance.

Underlying house prices have been updated in line with the latest available data. Sensitivities to interest rates and house prices are shown later in this note as these are the most material assumptions given the way in which the potential cost of the no negative equity guarantee is derived.

Given the various assumptions used in valuing the equity release mortgages, the instruments are recorded as Level 3 assets. The table below provides an analysis of the movement in the value of equity release mortgages. New business includes both the acquisition of back-books of equity release mortgages and new origination through Rothesay's strategic partners. The change in economic assumptions includes the impact of changes in interest rates and property prices.

	HY2022 £m	HY2021 £m	FY2021 £m
Carrying amount at 1 January	**5,329**	4,222	4,222
Increase in respect of new business	**1,166**	491	1,377
Redemptions/repayments	**(138)**	(138)	(280)
Accrued interest for the financial year	**116**	82	179
Change in economic assumptions	**(790)**	(161)	(168)
Change in demographic assumptions	**–**	–	(1)
Closing balance at end of the period/year	**5,683**	4,496	5,329

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

	HY2022 £m	HY2021 £m	FY2021 £m
Less than one year	**381**	269	301
One to five years	**1,210**	989	1,117
Over five years	**4,092**	3,238	3,911
Total	**5,683**	4,496	5,329

Notes to the condensed financial statements

continued

Note D – Financial assets and liabilities (continued)

D.2 Financial investments (continued)

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

The following table shows the impact on the fair value (FV) of Level 3 instruments of using reasonably possible alternative assumptions by class of instrument. Changes are made in isolation so, for example, no change is made to property price inflation in the property price sensitivities. Since part of any spread movement is likely to be included in the derivation of the valuation rate of interest, changes in fair value of assets also impact liabilities. The following table also shows the potential impact on profit before tax (PBT) and equity of the same alternative assumptions, assuming that all other pricing inputs remain constant.

			HY2022			
Impact on financial assets and PBT	Main assumptions	Changes in assumptions	Current FV £m	(Decrease)/ increase in FV £m	(Decrease)/ increase in PBT £m	(Decrease)/ increase in equity £m
Financial assets						
Corporate bonds and other corporate debt	Liquidity premium	+25bps	**776**	**(11)**	**(2)**	**(1)**
		-25bps	**776**	**11**	**1**	**1**
Loans secured on property	Liquidity premium	+25bps	**5,668**	**(207)**	**–**	**–**
		-25bps	**5,668**	**224**	**–**	**–**
Loans secured on property	Property prices	+10%	**5,668**	**11**	**12**	**10**
		-10%	**5,668**	**(15)**	**(23)**	**(18)**
Equity release mortgages	Liquidity premium	+25bps	**5,683**	**(155)**	**–**	**–**
		-25bps	**5,683**	**162**	**–**	**–**
Equity release mortgages	House prices	+10%	**5,683**	**68**	**63**	**51**
		-10%	**5,683**	**(90)**	**(84)**	**(68)**
Derivative assets	LPI bid-mid spread	+15bps	**2,460**	**2**	**2**	**2**
		-15bps	**2,460**	**(2)**	**(2)**	**(2)**
Financial liabilities						
Derivative liabilities	LPI bid-mid spread	+15bps	**2,707**	**117**	**117**	**94**
		-15bps	**2,707**	**(117)**	**(117)**	**(94)**
Collateralised financing agreements	Liquidity premium	+25bps	**146**	**8**	**8**	**7**
		-25bps	**146**	**(8)**	**(8)**	**(7)**

Notes to the condensed financial statements
continued

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

			HY2021			
Impact on financial assets and PBT	Main assumptions	Changes in assumptions	Current FV £m	(Decrease)/ increase in FV £m	(Decrease)/ increase in PBT £m	(Decrease)/ Increase in Equity £m
Financial assets						
Corporate bonds and other corporate debt	Liquidity premium	+25bps	1,161	(20)	(3)	(3)
		-25bps	1,161	20	3	3
Loans secured on property	Liquidity premium	+25bps	7,032	(280)	–	–
		-25bps	7,032	305	–	–
Loans secured on property	Property prices	+10%	7,032	24	37	30
		-10%	7,032	(38)	(68)	(55)
Equity release mortgages	Liquidity premium	+25bps	4,496	(131)	–	–
		-25bps	4,496	138	–	–
Equity release mortgages	House prices	+10%	4,496	72	71	58
		-10%	4,496	(92)	(92)	(74)
Derivative assets	LPI bid-mid spread	+15bps	3,374	(15)	(15)	(12)
		-15bps	3,374	15	15	12
Financial liabilities						
Derivative liabilities	LPI bid-mid spread	+15bps	3,946	178	178	144
		-15bps	3,946	(178)	(178)	(144)
Collateralised financing agreements	Liquidity premium	+25bps	207	14	14	11
		-25bps	207	(14)	(14)	(11)

Notes to the condensed financial statements

continued

Note D – Financial assets and liabilities (continued)

D.2 Financial investments (continued)

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

			FY2021			
Impact on financial assets and PBT	Main assumptions	Changes in assumptions	Current FV £m	(Decrease)/ increase in FV £m	(Decrease)/ increase in PBT £m	(Decrease)/ Increase in Equity £m
Financial assets						
Corporate bonds and other corporate debt	Liquidity premium	+25bps	1,092	(16)	(3)	(2)
		-25bps	1,092	17	3	2
Loans secured on property	Liquidity premium	+25bps	7,304	(310)	–	–
		-25bps	7,304	335	–	–
Loans secured on property	Property prices	+10%	7,304	19	28	23
		-10%	7,304	(37)	(63)	(51)
Equity release mortgages	Liquidity premium	+25bps	5,329	(161)	–	–
		-25bps	5,329	169	–	–
Equity release mortgages	House prices	+10%	5,329	84	84	68
		-10%	5,329	(107)	(108)	(88)
Derivative assets	LPI bid-mid spread	+15bps	3,721	6	6	5
		-15bps	3,721	(6)	(6)	(5)
Financial liabilities						
Derivative liabilities	LPI bid-mid spread	+15bps	4,035	158	158	128
		-15bps	4,035	(158)	(158)	(128)
Collateralised financing agreements	Liquidity premium	+25bps	213	13	13	11
		-25bps	213	(13)	(13)	(11)

D.3 Payables and financial liabilities

	HY2022 £m	HY2021 £m	FY2021 £m
Derivative financial instruments	**26,911**	21,075	20,688
Government, sub sovereign and agency obligations	**18**	4	–
Collateralised financing agreements	**1,337**	657	414
Total financial investment liabilities	**28,266**	21,736	21,102
Deposits received as collateral from third parties	**3,340**	1,628	1,537
Current tax payable	**–**	35	7
Employee payables	**47**	40	43
Other taxes and social security costs	**10**	8	14
Other payables	**230**	255	150
Total payables	**3,627**	1,966	1,751
Total payables and financial investment liabilities	**31,893**	23,702	22,853

Employee payables include deferred cash and the fair value of share-based payments awarded to employees.

Financial liabilities are recorded at fair value, of which £2,853m are valued using Level 3 techniques (HY2021: £4,153m, FY2021: £4,248m). The Level 3 financial liabilities are predominantly LPI linked derivatives. The remainder of the financial liabilities are valued using Level 1 and Level 2 techniques.

Notes to the condensed financial statements

continued

Note D – Financial assets and liabilities (continued)

D.3 Payables and financial liabilities (continued)

No financial liabilities were transferred from Level 2 to Level 3 in the first half of 2022 (HY2021: £Nil, FY2021: £Nil), or from Level 3 to Level 2 (HY2021: £Nil, FY2021: £Nil). Level 3 financial liabilities have decreased in market value by £1,395m in the period as a result of changes in economic conditions (HY2021: £584m decrease, FY2021: £489m decrease).

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

D.4 Borrowings

Rothesay's borrowings are as follows:

	HY2022 £m	HY2021 £m	FY2021 £m
Subordinated loans from related parties	**299**	299	299
Subordinated loan notes	**1,133**	1,129	1,131
US $400 million contingent convertible RT1 notes	**327**	–	295
Total borrowed	**1,759**	1,428	1,725

On 27 October 2021, Rothesay Life Plc (RLP) issued $400m of contingent convertible RT1 notes. The notes have no fixed maturity date and interest is payable at the sole discretion of RLP. A fixed 4.875% coupon is payable biannually in arrears. If an interest payment is not made it is cancelled and it does not accumulate or become payable at any time thereafter.

The notes are callable on or after 13 April 2027. If the notes are not repaid by 13 October 2027, the fixed rate of interest per annum will be reset. The notes are direct, unsecured and subordinated obligations of the issuer.

The 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 financial reporting purposes.

The full principal amount of each note is irrevocably and automatically reduced to zero on a permanent basis if RLP determines at any time that:

(i) eligible Own Fund items are less than or equal to 75% of the SCR;

(ii eligible Own Fund items are less than or equal to 100% of the MCR; or

(iii) a breach of the SCR has occurred and has not been remedied within three months.

The notes then convert into a new class B of non-voting ordinary shares of RLP.

The £300m revolving credit facility entered into in March 2017 was renegotiated in July 2019 and increased to £420m. The facility has subsequently been extended to August 2025 and remains effective but undrawn.

Notes to the condensed financial statements
continued

Note D – Financial assets and liabilities (continued)
D.4 Borrowings (continued)
The carrying amounts, fair values and features of Rothesay's borrowings are summarised in the table below:

					Carrying amount			Fair value		
Notional amount	Issue date	Redemption date	Callable at par at the option of the Group from	Coupon	HY2022 £m	HY2021 £m	FY2021 £m	HY2022 £m	HY2021 £m	FY2021 £m
Subordinated loans from related parties										
£300m	19 September 2017	19 September 2028	19 September 2023 and annually thereafter	6.05%	**299**	229	299	**293**	315	308
Subordinated loans										
£250m	22 October 2015	22 October 2025	No call option	8%	**250**	249	249	**268**	314	301
£500m	12 July 2019	12 July 2026	No call option	3.375%	**488**	486	487	**464**	538	522
£400m	17 September 2019	17 September 2029	17 September 2024	5.5%	**395**	394	395	**401**	446	432
$400m	27 October 2021	Perpetual	13 April 2027	4.875%	**327**	–	295	**272**	–	294

For the period ended 30 June 2022, an interest expense of £48m (HY2021: £41m, FY2021: £85m) was recognised in the condensed consolidated statement of comprehensive income in respect of these borrowings. For HY2021 and FY2021, the interest payable on third party borrowings included interest of £12m (HY2021) and £29m (FY2021) paid on the sterling-denominated RT1 notes. From 1 January 2022, this will be treated as an appropriation of profit as shown in note C.3.

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

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

	1 January 2021 £m	Cash flows £m	Non-cash flows £m	30 June 2021 £m
Subordinated loans from related parties	298	–	1	299
Subordinated loan notes	1,128	–	1	1,129
Total borrowings	1,426	–	2	1,428

Notes to the condensed financial statements
continued

Note D – Financial assets and liabilities (continued)
D.4 Borrowings (continued)
Reconciliation of borrowings (continued)

	1 January 2021 £m	Cash flows £m	Non-cash flows £m	31 December 2021 £m
Subordinated loans from related parties	298	–	1	299
Subordinated loan notes	1,128	–	3	1,131
US $400 million contingent convertible RT1 notes	–	290	5	295
Total borrowings	1,426	290	9	1,725

Notes to the condensed financial statements
continued

Note E – Insurance contracts and reinsurance
E.1 Insurance contract liabilities, net of reinsurance
The table below shows insurance contract liabilities, net of reinsurance. Insurance contract liabilities include reinsurance inwards, i.e. where the Group has reinsured a third party insurer. Where such contracts benefit from third party reinsurance, the insurance contract liabilities are shown net of those reinsurance arrangements.

	HY2022 £m	HY2021 £m	FY2021 £m
Insurance contract liabilities	**43,124**	53,457	54,030
Reinsurance assets	**(352)**	(503)	(641)
Reinsurance liabilities	**1,136**	988	1,217
Insurance contract liabilities, net of reinsurance	**43,908**	53,942	54,606

Net insurance contract liabilities fell by £10.7bn in the first half of 2022 largely as a result of the increase in the valuation interest rate used to discount the liabilities.

E.2 Reinsurance assets/liabilities
As noted previously, it remains unclear whether COVID-19 will materially impact Rothesay's long-term mortality assumptions. In valuing the reinsurance assets and liabilities (and consistent with the valuation of insurance contract liabilities), Rothesay has allowed for reported deaths and included an adjustment within our mortality assumptions, to largely offset the impact of COVID-19 in the underlying 2020 mortality experience data.

Under the outward reinsurance contracts, Rothesay has committed to pay fixed cash flows to the reinsurer for each policy covered. In exchange, the reinsurers will pay cash flows that are linked to the actual longevity of the underlying policies. The contracts are generally collateralised for changes in longevity expectations and movements in market rates. Where a contract is collateralised, no additional reserves are held as part of the insurance contract liabilities, as the expected loss on default would be expected to be covered by the collateral. For the contracts where no collateral is held, an additional counterparty default allowance is held as part of the insurance contract liabilities to reflect the risk of loss on default. The calculation of the allowance considers the probability of default of the counterparty along with the expected level of collateral available to be reclaimed in the event of default. Longevity reinsurance contracts are valued as the net position comparing the discounted value of the fixed leg payable with the floating leg received from the reinsurer. Additional longevity reinsurance has been transacted over the period in respect of £1.2bn of liabilities of previously not reinsured.

At 30 June 2022, 30 June 2021 and 31 December 2021 Rothesay conducted an impairment review of the reinsurance assets and found no impairment necessary.

E.3 Insurance contract liabilities
Key valuation assumptions
This note details the assumptions with the greatest impact on Rothesay's insurance contract liability valuations.

(a) Mortality assumptions
Best estimate mortality assumptions have been determined separately for each insurance contract. The resulting assumptions are equivalent to using the base mortality assumptions set out in the table below:

	HY2022		HY2021		FY2021	
	Pensions originated	**Insurance originated**	Pensions originated	Insurance originated	Pensions originated	Insurance originated
Males	**101.0% S2PMA**	**96.8% S2PMA**	100.5% S2PMA	95.6% S2PMA	101.0% S2PMA	96.8% S2PMA
Females	**101.0% S2PFA**	**96.8% S2PFA**	100.5% S2PFA	95.6% S2PFA	101.0% S2PFA	96.8% S2PFA

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.

Notes to the condensed financial statements
continued

Note E – Insurance contracts and reinsurance (continued)
E.3 Insurance contract liabilities (continued)
Key valuation assumptions (continued)
(a) Mortality assumptions (continued)

Recent mortality experience is analysed annually for each pension scheme and for insurance originated business. The last review was carried out during 2021. The best estimate base mortality assumptions used in the valuation are based on this actual mortality experience. For 2021, an adjustment has been made to largely offset the observed impact of COVID-19, given the uncertainty of the long-term effect on base mortality rates. 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 S2 series of mortality tables drawn up by the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries. The S2 tables are based on industry-wide experience. For the S2 tables, past mortality improvements are applied assuming the base mortality rates are as at 2007.

The changes to the single equivalent rates over 2021 reflect the inclusion of new business, differences from expected mortality in recent years, observed longevity reinsurance market pricing, the impact of updating the mortality improvements used to roll the base tables forward to the current date and the COVID-19 adjustment. No changes have been made to our best estimate mortality assumptions during 2022.

Allowance is made for future improvements in annuitant mortality with reference to statistical analysis of historical rates of mortality improvements, expert judgement of future changes in mortality improvements, industry benchmarking and reinsurance pricing. During 2021 mortality improvement assumptions were updated to reflect recent mortality improvements, including adoption of the CMI 2020 improvement model; these assumptions have been retained for the first half of 2022. The CMI 2020 model places no weight on 2020 data, removing the impact of COVID-19 from our long-term rates assumption. For both 2021 and 2022, an advanced calibration of the model has been used.

The chosen long-term improvement rate assumption varies by age using a bespoke calibration that tapers non-linearly from age 70 to 0% at age 120. The long-term rates in the table below are expressed as core CMI model long-term rates and are equivalent on a present value basis to the actual long-term rate adopted. The best estimate long-term improvement rates have remained unchanged through 2022 and 2021. The assumed initial rates of improvements as at 30 June 2022 remain consistent with those used at 31 December 2021. The initial adjustment parameter has not been adopted, with adjustment to the initial rate of mortality improvements continuing to be made through the Sk parameter.

Best estimate improvements are equivalent to those shown in the table below:

	Future mortality improvements (excluding margins)		
	HY2022	HY2021	FY2021
Males	**CMI_2020*_M[1.7%; Sκ=7.5]**	CMI_2019*_M[1.7%; Sκ=7.5]	CMI_2020*_M[1.7%; Sκ=7.5]
Females	**CMI_2020*_F[1.7%; Sκ=7.5]**	CMI_2019*_F[1.7%; Sκ=7.5]	CMI_2020*_F[1.7%; Sκ=7.5]

*Calibration ages 20-90

Prudent margins are then applied to both the base mortality assumptions and improvements to reflect the fact that future experience may differ from that assumed. The impact of the margins applied leads to an increase in assumed life expectancy for a 65-year-old of 1.6 years (HY2021: 1.6 years, FY2021: 1.6 years). No changes have been made to prudent margins during 2022.

(b) Economic assumptions including valuation rate of interest
The valuation rate of interest used to discount the cash flows for the purpose of valuing insurance contract liabilities is based on the risk-adjusted yield obtainable on the basket of assets matching the applicable insurance contract liabilities at 30 June 2022. For the purposes of this calculation, any assets held by LT Mortgage Financing Limited, Rothesay MA No.1 Limited and Rothesay MA No.3 Limited are treated as if they were held directly and inter-company arrangements ignored. Where assets are assumed to be reinvested, we assume that they achieve a yield of SONIA (2021: a yield of SONIA).

Notes to the condensed financial statements
continued

Note E – Insurance contracts and reinsurance (continued)

E.3 Insurance contract liabilities (continued)
Key valuation assumptions (continued)
(b) Economic assumptions including valuation rate of interest (continued)

A 2.5% prudential margin is then applied to the risk-adjusted internal rate of return obtained on the basket of matching assets and an allowance made for investment management expenses of 3bps p.a. (HY2021: 3bps p.a, FY2021: 3bps p.a).

The result is equivalent to using the valuation rate of interest set out in the table below:

	HY2022	HY2021	FY2021
Equivalent rate of interest	**3.48% p.a.**	1.69% p.a.	1.77% p.a.

In determining the risk-adjusted yield on assets, a deduction is made to reflect credit default risk, where applicable adjusted for the prudent expected recoveries in the event of default and, for some asset classes, the cost of rebalancing the portfolio following a downgrade. This deduction in yield is determined separately for each individual asset, reflecting the risk to the return being achieved on the asset.

The table below shows the average yield deduction by asset class before the application of the 2.5% prudential margin at 30 June 2022, 30 June 2021 and 31 December 2021.

	Average yield deduction		
Asset class	**HY2022**	HY2021	FY2021
UK Government approved securities	**0 bps**	0 bps	0 bps
Secured lending	**25 bps**	29 bps	29 bps
Supranational/other sovereign	**25 bps**	22 bps	21 bps
Secured residential lending	**32 bps**	26 bps	28 bps
Corporate bonds (without covering credit default swaps)	**73 bps**	58 bps	61 bps
Infrastructure	**80 bps**	65 bps	65 bps
Equity release mortgages	**53 bps**	77 bps	74 bps
Other	**49 bps**	40 bps	41 bps
Overall yield deduction	**41 bps**	32 bps	33 bps

Since the end of 2021, the average yield deduction has increased in aggregate. The change in default allowances is mainly due to the change in market conditions during the period.

Allowance is made for the risks associated with equity release mortgages through the valuation of the NNEG and this is included in the overall yield deduction above. The calculation of the NNEG is described in note D.2 and for the valuation rate of interest is calculated on a prudent basis allowing for future property price growth at a rate equivalent to 2.17% net of dilapidation costs and cost of sale (HY2021: 1.30%, FY2021: 1.36%) and house price volatility equivalent to 13% (HY2021: 13%, FY2021: 13%). Higher expected property price growth reduces the likelihood future mortgage balances will exceed property values, lowering the deduction in yield required for the NNEG. As such, changes in market conditions have reduced the yield deduction for equity release mortgages, offset by a slight increase in prudence in the calculation methodology.

Notes to the condensed financial statements

continued

Note E – Insurance contracts and reinsurance (continued)

E.3 Insurance contract liabilities (continued)

Key valuation assumptions (continued)

(b) Economic assumptions including valuation rate of interest (continued)

An important actuarial assumption relates to the future rate of escalation of certain annuity benefits. Where possible such rates are derived from inflation swap markets. Whilst that is still the case for more liquid inflation rates, there is not a sufficiently deep, liquid market to support setting the rate of limited price indexation (LPI). Since the end of 2020, we have therefore projected these rates using LPI models based on realised LPI and other market inputs.

(c) Expense assumption

The allowance made for future maintenance expenses was updated at the end of 2021 following an investigation into the total costs incurred by Rothesay during 2021 and projected 2022 expenses. As part of this investigation, costs have been split between acquisition and maintenance 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. The average per policy allowance is £38 per policy per annum (HY2021: £40 per policy per annum, FY2021: £38 per policy per annum). Additional allowances are then made for short-term project costs and investment management expenses.

Within these expense provisions, an allowance for future expense inflation has been made to cover the impact of both salary and price inflation. The future rate of expense inflation is assumed to be RPI (as implied by the RPI swap curve) plus an addition at each duration of 0.25% p.a. for all expenses (HY2021: 0.25% p.a., FY2021: 0.25% p.a.).

(d) Member option and dependants assumptions

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

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 (see note E.3(b) on the previous page).

When deferred annuitants have passed the scheme's normal retirement date and have been subject to an in-depth tracing exercise and yet remain untraced, 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's normal retirement date are assumed to start receiving pension payments immediately.

Notes to the condensed financial statements
continued

Note E – Insurance contracts and reinsurance (continued)
E.3 Insurance contract liabilities (continued)
Key valuation assumptions (continued)
e) Movement in insurance contract liabilities, net of reinsurance

The table below details the change in insurance contract liabilities, net of reinsurance, over the period. The release of liabilities line reflects claims paid, release of prudent margins and unwind of discounting over the period.

	HY2022 £m	HY2021 £m	FY2021 £m
Carrying amount at 1 January	**54,606**	55,624	55,624
Increase in respect of new business	**900**	1,701	2,927
Release of liabilities	**(852)**	(1,182)	(2,435)
Effect of assumption changes and model refinement	**(10,747)**	(2,194)	(1,510)
Other	**1**	(7)	–
Closing balance at financial statement date	**43,908**	53,942	54,606

The following table shows the impact on the insurance contract liabilities, net of reinsurance, of changes in the assumptions used:

Net (decrease)/increase in liabilities	**HY2022 £m**	HY2021 £m	FY2021 £m
Change in assumptions used			
Valuation rate of interest	**(11,017)**	(3,218)	(3,611)
Inflation	**270**	1,043	2,243
Effect of economic assumption changes	**(10,747)**	(2,175)	(1,368)
Demographics	**–**	–	(71)
Member options	**–**	–	–
Expenses	**–**	–	(32)
Model refinement	**–**	(19)	(39)
Effect of non-economic assumption changes and model refinement	**–**	(19)	(142)
Total effect of assumption changes	**(10,747)**	(2,194)	(1,510)

As shown previously, the valuation rate of interest increased by 171bps over the period, which led to the £11bn decrease in the net liability shown. This was partially offset by the impact of the rise in near-term future inflation rates.

Notes to the condensed financial statements
continued

Note E – Insurance contracts and reinsurance (continued)
E.3 Insurance contract liabilities (continued)
Key valuation assumptions (continued)
(f) Sensitivity analysis

The schedule below provides an analysis of the reasonably possible movements in key assumptions that would have a material impact on liabilities (net of reinsurance), profit before tax (PBT) and equity. The analysis is based on a change in a single assumption whilst holding all other assumptions constant. The analysis assumes an instantaneous shock to the assumptions other than for the interest rate and inflation sensitivities where the impact of dynamic hedging is allowed for as market conditions change. The impact of the sensitivities have reduced in absolute terms due to the increase in discount rate over the period.

HY2022	Change in assumptions	(Decrease)/ increase in net liabilities £m	Increase/ (decrease) in PBT £m	Impact on equity £m
Annuitant mortality	**+5% qx**	**(91)**	**92**	**74**
Annuitant mortality	**-5% qx**	**97**	**(98)**	**(79)**
Interest rate	**+100bps**	**(4,934)**	**(24)**	**(19)**
Interest rate	**-100bps**	**6,042**	**162**	**131**
Inflation	**+100bps**	**2,466**	**(59)**	**(47)**
Inflation	**-100bps**	**(2,263)**	**118**	**96**
Credit spread widening	**+50bps**	**(1,048)**	**(369)**	**(299)**
Change in property prices	**+10%**	**3**	**76**	**61**
Change in property prices	**-10%**	**2**	**(107)**	**(87)**
Expenses	**+10%**	**113**	**(113)**	**(92)**

HY2021	Change in assumptions	(Decrease)/ increase in net liabilities £m	Increase/ (decrease) in PBT £m	Impact on equity £m
Annuitant mortality	+5% qx	(182)	179	145
Annuitant mortality	-5% qx	197	(193)	(157)
Interest rate	+100bps	(6,795)	(130)	(105)
Interest rate	-100bps	8,455	396	321
Inflation	+100bps	3,326	89	72
Inflation	-100bps	(3,060)	67	54
Credit spread widening	+50bps	(1,186)	(376)	(305)
Change in property prices	+10%	(12)	108	88
Change in property prices	-10%	30	(160)	(129)
Expenses	+10%	139	(139)	(113)

FY2021	Change in assumptions	(Decrease)/ increase in net liabilities £m	Increase/ (decrease) in PBT £m	Impact on equity £m
Annuitant mortality	+5% qx	(186)	180	146
Annuitant mortality	-5% qx	201	(195)	(158)
Interest rate	+100bps	(6,932)	(280)	(227)
Interest rate	-100bps	8,664	489	396
Inflation	+100bps	3,401	159	129
Inflation	-100bps	(3,177)	19	15
Credit spread widening	+50bps	(1,208)	(386)	(313)
Change in property prices	+10%	(9)	112	91
Change in property prices	-10%	27	(171)	(139)
Expenses	+10%	140	(140)	(114)

Notes to the condensed financial statements
continued

Note E – Insurance contracts and reinsurance (continued)
E.3 Insurance contract liabilities (continued)
Key valuation assumptions (continued)
(f) Sensitivity analysis (continued)
The sensitivities shown capture non-linearity effects, which may be significant following large market movements. The risk management strategy adopted can result in Rothesay being immunised to market movements in either direction.

Given the increase in interest rates in 2022, the -100bps interest rate sensitivity results in interest rates remaining positive at all durations (HY2021: fell below zero at all durations, FY2021: fell below zero at some durations).

The impact of reinsurance on the sensitivity to mortality risk is a reduction of 89% (HY2021: 84%, FY2021: 84%). In 2022 the impact of reinsurance has changed due to additional reinsurance transacted through the period, new business and changes in economic conditions.

The annuitant mortality sensitivity is defined in terms of a qx stress, where qx represents the probability of a life dying during the period. As such, in the annuitant mortality stress it is assumed that in each year 5% more or fewer people survive to the end of each year than had previously been assumed.

Notes to the condensed financial statements

continued

Note F – Risk and capital management

F.1 Capital management

Rothesay's capital resources are of critical importance. Rothesay's capital management framework is designed to meet the following objectives:

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

From 1 January 2016, Rothesay was required to operate under the new Solvency II regime. Rothesay had sufficient capital available to meet its regulatory capital requirements at all times during the period ended 30 June 2022.

Under the Solvency II regime, Rothesay is required to hold sufficient assets to meet:

- Rothesay's technical provisions, being:
  - the liabilities of Rothesay calculated on a best estimate basis (the BEL); plus
  - the risk margin; less
  - available transitional solvency relief.
- The capital required to meet a 1-in-200-year stress (known as the solvency capital requirement or SCR).

Transitional solvency relief has been recalculated as at 30 June 2022 (prior recalculation 31 December 2021) and amortises by 1/16th each year from 1 January 2017. As at 30 June 2022, solvency estimates allow for amortisation of 6/16ths of transitional solvency relief (2021: 5/16ths). The 30 June 2022 recalculation is in response to the significant change in economic conditions in the first half of 2022.

Rothesay received approval to use a PIM from 31 December 2018, so from that date the SCR relating to credit and counterparty risk is calculated using the Rothesay's bespoke models and the standard formula is used to calculate the SCR for all other risk components and for aggregation across risk components.

Capital in excess of that required to meet the technical provisions is known as Own Funds. As at 30 June 2022, Own Funds for Rothesay were £8,211m (HY2021: £7,081m, FY2021: £8,269m) made up as follows:

	HY2022 £m	HY2021 £m	FY2021 £m
Total IFRS equity	**6,118**	5,132	6,049
Liability valuation differences and other regulatory adjustments	**747**	483	784
Total Tier 1	**6,865**	5,615	6,833
Tier 2 debt valuation	**889**	966	948
Tier 3 debt valuation	**457**	500	488
Own Funds	**8,211**	7,081	8,269

Rothesay holds both debt and equity to optimise its capital structure and improve shareholder return. During 2021, £450m of Tier 1 GBP RT1 notes and $400m of USD Tier 1 RT1 notes were issued by Rothesay.

The capital position is sensitive to changes in market conditions, due to changes in the value of the assets and the effect that changes in investment conditions may have on the value of the liabilities. Rothesay seeks to mitigate these risks through the close matching of asset and liability cash flows, and through the use of derivative hedges and reinsurance. Management monitors market conditions and emerging longevity experience on a regular basis. As these conditions change, management will take remedial action such as adjustment of hedging strategies and reinvestment of assets as appropriate.

Notes to the condensed financial statements
continued

Note G – Other statement of condensed consolidated financial position notes
G.1 Deferred tax assets
Deferred tax balances comprise:

	HY2022 £m	HY2021 £m	FY2021 £m
Other temporary differences	**2**	(1)	3
Total temporary differences	**2**	(1)	3

The movements in the deferred tax balances were as follows:

	HY2022 £m	HY2021 £m	FY2021 £m
At 1 January	**3**	5	5
Current period charge	**(1)**	**(6)**	**(2)**
At 30 June/31 December	**2**	(1)	3

Deferred tax assets are only recognised to the extent that, based on management's assessment, they are regarded as recoverable. Management considers it appropriate to recognise a deferred tax asset in light of forecast future profits and the history of profits within the Group.

During May 2021, the UK Government enacted an increase to the rate of UK corporation tax from 19% to 25% which will apply from 1 April 2023. As a result of this, Rothesay amended the deferred taxation calculations to take account of the rate increase. The increase led to a £0.1m increase in the deferred tax asset.

Notes to the condensed financial statements
continued

Note H – Interests in subsidiaries and associates
H.1 Investments in subsidiaries
The financial statements include the financial statements of Rothesay Limited and the subsidiaries listed in the following table:

Group undertakings	Country of incorporation	Primary business operation	HY2022 £m	HY2021 £m	FY2021 £m	HY2022 % equity interest	HY2021 % equity interest	FY2021 % equity interest
Rothesay Pensions Management Limited	UK	Service company	**1**	1	1	**100%**	100%	100%
Rothesay Life Plc	UK	Life insurance	**2,464**	2,464	2,464	**100%**	100%	100%
LT Mortgage Financing Limited	UK	Service company	**6**	6	6	**100%**	100%	100%
Rothesay Property Partnership 1 LLP	UK	Service company	**–**	–	–	**100%**	100%	100%
Rothesay MA No.1 Limited	UK	Service company	**5**	5	5	**100%**	100%	100%
Rothesay MA No.2 Limited	UK	Service company	**–**	–	–	**100%**	100%	100%
Rothesay MA No.3 Limited	UK	Service company	**2**	2	2	**100%**	100%	100%
Rothesay MA No.4 Limited	UK	Service company	**–**	–	–	**100%**	100%	100%
Rothesay Asset Management UK Limited	UK	Service company	**5**	5	5	**100%**	100%	100%
Rothesay Asset Management Australia Pty Ltd	Aus	Service company	**5**	–	–	**100%**	–	100%
Rothesay Asset Management US LLC	US	Service company	**5**	5	5	**100%**	100%	100%

Subsidiaries are held at cost less impairment.

The above subsidiary undertakings, with the exception of Rothesay Asset Management US LLC and Rothesay Asset Management Australia Pty Ltd, are registered in the United Kingdom. The registered office and principal place of business for all UK subsidiary undertakings is The Post Building, 100 Museum Street, London WC1A 1PB.

Rothesay Asset Management US LLC is registered in Delaware, United States of America. The registered office is Corporate Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, New Castle County, USA.

Rothesay Asset Management Australia Pty Ltd was incorporated during July 2021 and is registered in New South Wales, Australia. The registered office is Level 4, Deutsche Bank Place, 126 Phillip Street, Sydney, NSW 2000, Australia.

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

Rothesay MA No.2 Limited was incorporated during March 2019. Rothesay MA No.4 Limited (RMA4) was incorporated during November 2019, RMA4 remains dormant.

On 3 October 2016, the PRA granted an application to cancel the permissions of Rothesay Assurance Limited. As it was no longer needed, steps were taken to remove it from Rothesay and the company was placed into members' voluntary liquidation on 4 June 2019. The company was officially dissolved on 8 July 2021.

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

Notes to the condensed financial statements

continued

Note I – Other notes

I.1 Related parties disclosures

Based on the percentage of nominal share capital owned, the shareholdings of Rothesay's institutional investors are as follows:

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

The remaining percentage is owned by the Directors, management, employees, the Trust and the ESIP Trust (see note C.1).

Related party transactions

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

	HY2022 £m	HY2021 £m	FY2021 £m
Statement of comprehensive income			
Change in the reinsurers' share of insurance contract liabilities and reinsurance recoveries	**(94)**	(31)	40
Finance costs	**(9)**	(9)	(18)
Operating expenses	**(2)**	(4)	(7)
Statement of financial position			
Reinsurance	**105**	128	199
Borrowings	**299**	298	299
Capital	**1,548**	1,548	1,548

Transactions with key management personnel

Key management personnel comprise the Directors of the Company, Directors of subsidiary undertakings and certain members of senior management.

There are no material transactions between Rothesay and its key management personnel other than the transactions discussed below:

	HY2022 £m	HY2021 £m	FY2021 £m
Salaries, bonus and other employee benefits	**4**	4	21
Equity-based compensation payments	**8**	5	15
Total transactions	**12**	9	36

On 29 March 2022, members of key management personnel and their families sold 1,683,216 B ordinary shares to the employment benefit trust for consideration of £7m. On 31 March 2022 members of key management personnel and their families bought 4,819,277 B ordinary shares from the employment benefit trust for consideration of £20m.

Notes to the condensed financial statements

continued

Note I – Other notes (continued)

I.1 Related parties disclosures (continued)

The tables below represent transactions between Rothesay Limited and its subsidiaries RPML, RLP and Rothesay Asset Management UK (RAM UK).

Transactions with RPML	HY2022 £m	HY2021 £m	FY2021 £m
Statement of financial position			
Other payables	**22**	21	21
Capital	**1**	1	1

Transactions with RLP	HY2022 £m	HY2021 £m	FY2021 £m
Statement of comprehensive income			
Cost transfer	**(2)**	(2)	(5)
Statement of financial position			
Other payables	**76**	47	49
Capital	**2,464**	2,464	2,464

Transactions with RAM UK	HY2022 £m	HY2021 £m	FY2021 £m
Capital	**10**	5	5

Transactions with LT Mortgage Financing Limited

Between 2018 and 2021, £4.1bn of ERMs were transferred from RLP to its subsidiary LT Mortgage Financing Limited (LTMF). Whenever ERMs were transferred, LTMF became the beneficial owner of the ERMs in exchange for the issue of loan notes. These transactions took place on an arm's length basis using the fair value of the equity release mortgages. Under IAS 39, the loans cannot be derecognised from the Company as RLP effectively maintains all the risk and rewards and control of the mortgages after the securitisations through the loan notes. For the purposes of determining the valuation rate of interest under IFRS 4, these securitisations are ignored.

Notes to the condensed financial statements

continued

Note I – Other notes (continued)

I.1 Related parties disclosures (continued)

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 IAS 39, the loans cannot be derecognised from the Company as RLP effectively maintains all the risk and rewards and control of the loans after the securitisations through the loan notes. For the purposes of determining the valuation rate of interest under IFRS 4, this securitisation is ignored.

Transactions with Rothesay MA No.3 Limited

During 2020 and 2021, €1.0bn of Dutch mortgage loans were transferred from RLP to its subsidiary Rothesay MA No.3 Limited (RMA3). In each case, RMA3 became the beneficial owner in the Dutch mortgage loans in exchange for the issue of loan notes. This transaction took place on an arm's length basis using the fair value of the Dutch mortgages. Under IAS 39, the loans cannot be derecognised from the Company as RLP effectively maintains all the risk and rewards and control of the mortgages after the securitisations through the loan notes. For the purposes of determining the valuation rate of interest under IFRS 4, this securitisation is ignored.

I.2 Financial commitments and contingencies

During previous years, Rothesay executed transactions to purchase partly funded bonds and forward settling bonds. Rothesay expects to pay a further £407m within the next five years (HY2021: £757m, FY2021: £784m), £93m of this being due within 12 months of the financial reporting date (HY2021: £544m, FY2021: £508m).

	HY2022 £m	HY2021 £m	FY2021 £m
Not later than one year	**93**	544	508
Later than one year and no later than five years	**314**	213	276
Later than five years	**–**	–	–
Total other commitments	**407**	757	784

I.3 Leases

(a) Amounts included in the statement of financial position

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable;
- amounts expected to be payable by Rothesay under residual value guarantees;
- payments of penalties for terminating the lease; and
- lease payments to be made under reasonably certain extension options.

Lease payments are discounted using Rothesay's incremental borrowing rate. The incremental borrowing rate represents the cost of funding to Rothesay at the date that the lease was entered into.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the statement of income over the lease period so as to produce a constant rate of interest on the remaining balance of the liability for each period.

Right of use assets are measured at cost comprising the following:

- amount of any initial measurement of lease liability;
- leased payments made before the commencement date less any lease incentives received;
- initial direct costs; and
- restoration costs.

Right-of-use assets are depreciated over the lease term on a straight-line basis.

Notes to the condensed financial statements

continued

Note I – Other notes (continued)

I.3 Leases (continued)

(a) Amounts included in the statement of financial position (continued)

Rothesay's right-of-use assets include the lease on the UK office executed in May 2019. The lease for the UK office, The Post Building, has a duration of 17 years with a break clause at 12 years which we have assumed is exercised. The incremental borrowing rate for the Group was 3.37% Rothesay's right-of-use asset also includes the lease on the new US office executed in 2022. The lease has a duration of 12 years with breaks at years 7 and 10 which we have assumed are not exercised.

Rothesay was not a lessor during the period.

Right-of-use assets

	HY2022 £m	HY2021 £m	FY2021 £m
Right-of-use asset	**33**	32	30
Right-of-use asset – property			
Balance at 1 January	**30**	34	34
Depreciation charge for the period/year	**(2)**	(2)	(4)
Additions	**5**	–	–
Closing balance at 30 June/31 December	**33**	32	30

Lease liabilities

	HY2022 £m	HY2021 £m	FY2021 £m
Lease liability	**45**	41	42
Maturity analysis based on undiscounted liabilities			
Current liabilities:			
Less than one year	**5**	–	5
Non-current liabilities:			
One to five years	**23**	26	21
More than five years	**12**	14	12
Total undiscounted lease liabilities	**40**	40	38

(b) Amounts recognised in the statement of comprehensive income

	HY2022 £m	HY2021 £m	FY2021 £m
Leasehold depreciation	**2**	2	4
Financing charge on lease liabilities (included in note B.4 Finance costs)	**1**	1	1

(c) Amounts recognised in statement of cash flows

	HY2022 £m	HY2021 £m	FY2021 £m
Leasehold depreciation	**2**	2	4
Financing charge on lease liabilities	**1**	1	1
Total cash flows for leases	**1**	–	–

Alternative performance measures

As noted on page 13, throughout the financial statements Rothesay has used a variety of measures to provide stakeholders with the necessary information on the performance and financial position of Rothesay. Where it is possible to reconcile to the financial statements this is referenced; however, some of these measures are not on a consistent basis with IFRS and therefore the methodology is explained below. Where relevant, we have used accounting policies and assumptions that are consistent with the IFRS financial statements.

These measures are included in the monthly management information circulated and discussed by the Board.

Assets under management

Assets under management can be derived by adjusting total assets for reinsurance, payables, derivatives and collateralised financing as shown in the table below. By netting down the derivative gross up, Rothesay provides a more meaningful value for the assets managed and a useful measure of the size of the business.

Assets under management (APM)	**HY2022 £m**	HY2021 £m	FY2021 £m
Total assets	**84,159**	84,842	85,987
Less reinsurance assets	**(352)**	(503)	(641)
Less payables and financial liabilities	**(31,893)**	(23,702)	(22,853)
Assets under management	**51,914**	60,637	62,493

Alternative presentation of IFRS profits

The alternative presentation of IFRS profits seeks to provide an explanation of the way in which profits have been generated by considering the movement in assets alongside the movement in liabilities. When taken together with the other items in the alternative analysis of profit generation, the items can be reconciled to the IFRS financial statements. See page 11.

Measure	Reconciliation to IFRS
New business profit – IFRS new business profit projected to be realised (before release of IFRS margins)	New business premium (note B.1) less increase in net insurance liabilities as a result of new business assuming that the premiums are invested in line with the long-term investment strategy. This analysis has been prepared to reflect that as at 30 June 2022, premiums from new business have been fully invested into the intended target assets, with an overall risk-adjusted yield of 3.48% p.a. across all assets. At HY2021 the future investment of new business premiums was expected to increase the risk-adjusted risk across all assets by 3bps, compared to the achieved yield of 1.69% p.a.; FY2021: an increase of 2 bps compared to a yield of 1.77% p.a.
Impact of temporary investment delay	The difference between the new business profit based on the actual assets held to back the liabilities at the reporting date and the new business profit above if applicable. Where there is such an impact, we anticipate that this will reverse as assets are invested according to the long-term investment strategy. The impact will be reduced to the extent that the investment mix on new business has changed between inception and the reporting date. No such delay was experienced in HY2022.
Investment profit from prior year – IFRS profits from investment of prior year premiums	The effect of economic assumption changes on net insurance liabilities due to change of investment mix in relation to business in force at the start of the period. Any profits made from investment in excess of those disclosed in prior years as the impact of temporary investment delay would offset the current year's impact of temporary investment delay (if applicable).

Alternative performance measures
continued

Measure	Reconciliation to IFRS
Performance of in-force book – Profits or losses generated on the in-force book of business	Investment return* expected on the assets held plus reinsurance recoveries and release of net insurance liabilities less premiums ceded to reinsurers and policyholder claims. This represents the profit that can be attributed to: • the release of prudent margins as the business runs off (including credit default allowances and expense reserves) and as members exercise their options; • the impact of actual demographic experience versus assumptions; and • the investment return on surplus assets. Note that for HY2022, this also includes the benefit from investment activity not captured in new business profit and investment profit from prior year.
Non-economic assumption changes – profits or losses generated from non-economic assumption changes	Effect of non-economic assumption changes on net insurance liabilities (note E.3(c))
Acquisition and Group costs	Acquisition and Group costs from note B.3
Maintenance expenses	Administration expenses – recurring from note B.3
Operating profit before tax – gross IFRS profit adjusted for the impact of market fluctuations, exceptional expenses and financing costs	Sum of the above.
Borrowing costs	Interest payable on borrowings. This is a subset of the finance costs shown in note B.4.
Project and other one-off expenses	Administration expenses – project and other one-off expenses from note B.3
Economic profits – profit or losses generated as a result of changes in economic conditions	Change in asset valuation due to changes in economic conditions less the effect of economic assumption changes on net insurance liabilities (note E.3(c)). Changes in economic conditions include movements in interest rates, inflation, exchange rates, credit spreads, credit default allowances, actual defaults and property prices. The release of credit default allowances over time is included in the performance of the inforce book.
Profit before tax	Sum of the above and consistent with reported profit.

*Includes interest paid on collateral and collateralised agreements (note B.4).

Alternative performance measures

continued

Market consistent embedded value (MCEV)

Embedded value reporting provides investors with a useful measure of the future profit streams of Rothesay's long-term business. Rothesay therefore uses a number of APMs that are derived from MCEV measures in addition to those that are derived from IFRS-based measures.

Market consistent embedded value (APM)	HY2022 £m	HY2021 £m	FY2021 £m	
Net worth of Rothesay Limited	**7,877**	6,558	7,774	Total IFRS equity of £6,118m (HY2021: £5,132m, FY2021: £6,049m) and IFRS borrowings of £1,759m, (HY2021: £1,428m, FY2021: £1,725m).
Value of in-force business	**1,029**	2,174	2,019	Value of emergence of prudent IFRS margins, allowing for the cost of capital.
Less: debt	**(2,359)**	(2,015)	(2,697)	Value of debt using a market value approach rather than the amortised cost valuation under IFRS. However, most of the difference between the value of debt on an MCEV basis and IFRS borrowings arises from the treatment of all the Restricted Tier 1 notes as debt under MCEV.
MCEV	**6,547**	6,717	7,096	

The movement analysis seeks to provide an explanation of the way in which MCEV has changed in the period. Acquisition expenses are allowed for in the MCEV value of new business and project, and other one-off expenses are included in other non-operating variances. Administration expenses are allowed for in the management of in-force business.

The **MCEV value of new business** is the risk-adjusted value of the business written in the period, allowing for the unwind of margins and cost of capital. It provides a measure of the profitability of new business once all margins have been released and cannot be reconciled to the IFRS financial statements.

The assumptions and methodology used in the calculation of the MCEV is subject to review and approval by the Board.

Solvency measures

Rothesay is a regulated entity under the Solvency II regulatory framework and therefore uses a number of APMs that are derived from Solvency II measures in addition to those that are derived from IFRS-based measures. The assumptions and methodology used in the calculation of solvency is subject to review and approval by the Board.

Own Funds represent the capital in excess of technical provisions and provide a measure of regulatory capital. A reconciliation of Own Funds to IFRS equity is provided in note F.1.

Under Solvency II, the capital required to withstand a 1-in-200-year event is known as the solvency capital requirement (SCR). **SCR coverage** is then Own Funds (capital in excess of technical provisions) divided by the SCR and expressed as a percentage. SCR coverage provides a measure of the financial strength of Rothesay. It is not possible to reconcile the SCR or the SCR coverage to the IFRS financial statements.

Other APMs

The **longevity reinsurance percentage** provides an indication of the extent to which Rothesay is protected from fluctuations in longevity through reinsurance. The percentage is derived by comparing the IFRS sensitivity of net insurance liabilities with the sensitivity of gross insurance liabilities to changes in assumed longevity (see note E.3(f)).

Alternative performance measures
continued

For the following APMs, it is not possible to reconcile to the IFRS financial statements:

Measure	Definition	Why is this used
Customer satisfaction	Policyholder feedback surveys are sent to all policyholders following interaction with them (apart from complaints and bereavements).	Rothesay prides itself on the quality of the service that it provides and this APM provides a measure of the quality of that service.
Complaints received and upheld	The number of complaints received and upheld by Rothesay per 1,000 policyholders.	Complaints provide a useful indication of customer (dis) satisfaction.

These metrics are regularly discussed by the Customer and Conduct Committee.

Glossary of terms

Acquisition costs	Acquisition costs comprise the expenses associated with the origination of new business, including annual compensation for employees.
Administration expenses — recurring	Administration costs (shown in note B.3) represent the cost of administering the in-force book of business. They include both outsourcing costs and other costs incurred by Rothesay.
Alternative performance measure	Rothesay's strategy is focused on protecting the security of policyholder benefits, growth through writing value-driven new business and, ultimately, delivering sustainable shareholder value. In the opinion of the Directors, the prescribed IFRS results and disclosures do not capture long-term value creation or changes to capital requirements and therefore do not fully reflect the performance, Rothesay therefore uses a number of Alternative Performance Measures which focus on value creation and capital strength.
Annuity	A series of regular payments made to an individual until their death. Payments may be indexed.
Assets under management	See Alternative Performance Measures.
Best estimate liability (BEL)	The liabilities of Rothesay calculated on a best estimate basis under Solvency II, i.e. where all the assumptions made in the calculation are best estimate.
Bid price	A bid price is the price a buyer is willing to pay for a security.
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.
Capital contribution reserve	The capital contribution reserve relates to equity-based compensation awards.
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.
Corporate bonds and other corporate debt	These are debt securities issued by corporations which are not guaranteed by governments.

Glossary of terms

continued

Covered bonds	Covered bonds are debt securities issued by a bank or mortgage institution and collateralised against a pool of assets.
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.
Cumulative translation adjustment	Gains and losses incurred when translating the overseas subsidiaries into the sterling consolidated balance sheet.
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.
Customer satisfaction	See Alternative Performance Measures.
Deferred annuities	Annuities or pensions due to be paid from a future date or when the policyholder reaches a specified age.
Demographics	Statistical data relating to the population and particular groups within it.
Distributable profits	A company’s profits available for distribution are its accumulated realised profits.
Economic profits	See Alternative Performance Measures.
Employee benefit trust (EBT)	A trust established to purchase and hold shares of the Company for delivery under employee share schemes.
Equity-based compensation	Share-based transactions awarded under incentive plans.
Equity release mortgages (ERMs)	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.
Fair value	Amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Finance costs	Represent interest payable on borrowings.
Fixed-for-term mortgages	Residential mortgages where the interest rate payable is fixed at outset for the whole term of the mortgage.
Full internal model (FIM)	Under Solvency II, insurer’s own model used to calculate the solvency capital requirement in relation to particular risks approved by the PRA.
Government, sub sovereign and agency obligations	A bond issued by a country’s government or corporate debt which is guaranteed by a government to repay borrowed money at a specific time.
Gross premiums written	Premiums received by RLP on new business and generated through regular premiums.

Glossary of terms
continued

In-force	An insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated.
Infrastructure	Investments in infrastructure such as water, energy and transportation.
Insurance 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 profit from prior year	See Alternative Performance Measures.
Investment return	Comprises all interest income on financial investments at fair value through profit and loss, realised investment gains and losses and movements in unrealised gains and losses, as well as expenses directly related to investments executed during the year.
Inwards reinsurance	Reinsurance where Rothesay is acting as the reinsurer.
Limited Price Indexation (LPI)	LPI is a pricing index used to calculate increases in components of scheme pension payments in the UK.
Liquidity premium	An addition to the risk-free rate used when projecting investment returns and discounting cash flows on certain types of contracts where the liabilities are illiquid and have cash flows that are predictable.
Liquidity premium adjustment	In calculating the MCEV, liabilities are discounted using the risk-free rate plus a liquidity premium adjustment, designed to capture the component of yield on a portfolio of assets that is attributable to liquidity rather than credit risk.
Liquidity risk	The risk of being unable to realise investments and other assets in order to settle financial obligations when they fall due.
Longevity reinsurance (%)	See Alternative Performance Measures.
Longevity risk	The risk that a company could be exposed to a higher payout as a result of increasing life expectancy.
Loss Absorbing Capacity of Deferred Taxes (LACDT)	The Loss Absorbing Capacity of Deferred Taxes adjustment reflects the fact that new deferred tax assets would be created in the event that Rothesay incurred unexpected losses, resulting in an increase of Own Funds. The LACDT reduces the SCR.
LTMF	LT Mortgage Financing Limited.
Market consistent embedded value (MCEV)	See Alternative Performance Measures.
Market risk	The risk of loss or of adverse change resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

Glossary of terms
continued

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.
Mortality tables	A table which shows, for each age, what the probability is that a person of that age and gender will die before their next birthday.
Net premiums	Life insurance premiums, net of reinsurance premiums paid to third party reinsurers.
Net worth	Under MCEV, the value of equity plus the value of borrowings on an IFRS basis.
New business	New insurance contracts and reinsurance inwards sold during the period. Includes business acquired through purchase of companies.
New business premium	Premiums paid on new business transacted during the period and adjustments to new business premiums from prior periods.
New business profit	See Alternative Performance Measures.
No negative equity guarantee (NNEG)	ERMs provide what is known as an NNEG, which means that the mortgage repayment amount (loan principal plus interest on redemption) cannot exceed the sale proceeds of the property on which the loan is secured.
Non-recurring and project expenditure	Administration – project and other one-off expenses (see note B.3).
NZAOA	The UN-convened Net-Zero Asset Owner Alliance is a group of global asset owners setting and reporting ambitious interim targets for net-zero emissions by 2050.
Offer price	Price at which a market maker is prepared to sell a specific security.
Operating profit before tax	See Alternative Performance Measures.
Operational risk	The risk arising from inadequate or failed internal processes, personnel or systems, or from external events.
Own Funds	Assets in excess of those required to meet the Solvency II technical provisions. See also Alternative Performance Measures.
Own risk and solvency assessment (ORSA)	An assessment of the risk to which the business is exposed as well as solvency forecasting in a range of scenarios, including consideration of the stresses that could jeopardise Rothesay's business plans.
Partial internal model (PIM)	Under Solvency II, insurer's own model used to calculate the solvency capital requirement in relation to particular risks approved by the PRA.
Performance of in-force book	See Alternative Performance Measures.
Pillar 1	Under Solvency II, represents the solvency capital requirement calculated using a standard formula or (partial) internal model.
Pillar 2	Under Solvency II, represents the required risk management principles and practices relating to the risk and capital estimates covered by Pillar 1.

Glossary of terms
continued

Policyholders	Rothesay generally uses the term policyholder to refer to the individual immediate and deferred annuitants whose benefits are insured by Rothesay regardless of whether the insurance is provided under a bulk annuity (where the contract is with the pension scheme) or a reinsurance policy (where the contract is with the insurance company).
Prudential Regulation Authority (PRA)	The PRA is the UK regulatory body responsible for prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
qx	qx is actuarial notation used to represent the probability of a life aged x dying during the year.
Regular premiums	Payments of premium made regularly over the duration of the policy.
Reinsurance	Protection sold to or purchased from another insurance company.
Reorganisation reserve	Reflects the impact of Rothesay's reorganisation in 2013 which led to an increase in reserves of £132m, reflecting the excess of consolidated net assets to the historical cost of investment in subsidiary entities.
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.
RMA2	Rothesay MA No.2 Limited.
RMA3	Rothesay MA No.3 Limited.
RMA4	Rothesay MA No.4 Limited.
RPML	Rothesay Pensions Management Limited, the Group's service company.
RSUs	Restricted share units.
S2PMA/S2PFA	S2PMA/S2PFA refer to mortality tables drawn up by the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries. These represent version 2 of the industry standard tables derived from pensioner data from self-administered pension schemes. Separate tables are utilised for males and females.
SCR coverage %	See Alternative Performance Measures.
Secured investments	Bespoke investments where very high levels of collateral have been negotiated and returns are generated through illiquidity premium.
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.

Glossary of terms
continued

Solvency capital requirement (SCR)	See Alternative Performance Measures.
Solvency II	The solvency regime applicable from 1 January 2016. Under Solvency II, Rothesay is required to hold the greater of the capital required under the new Solvency II Pillar 1 framework and the capital required under Rothesay's own economic capital models Solvency II Pillar 2.
SONIA	The Sterling Overnight Index Average, abbreviated to SONIA, is the effective overnight interest rate paid by banks for unsecured transactions in the British sterling market.
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 Solvency II, 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 Rothesay.
Value of new business on an MCEV basis	See Alternative Performance Measures.
Yield	A measure of the income received from an investment compared to the price paid for the investment. Normally expressed as a percentage.

Rothesay

Rothesay Limited
The Post Building
100 Museum Street
London WC1A 1PB

www.rothesay.com

T: 020 7770 5300