Securing the future

Rothesay Life Plc
Annual report and accounts 2024

Our purpose

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

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

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At a glance

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

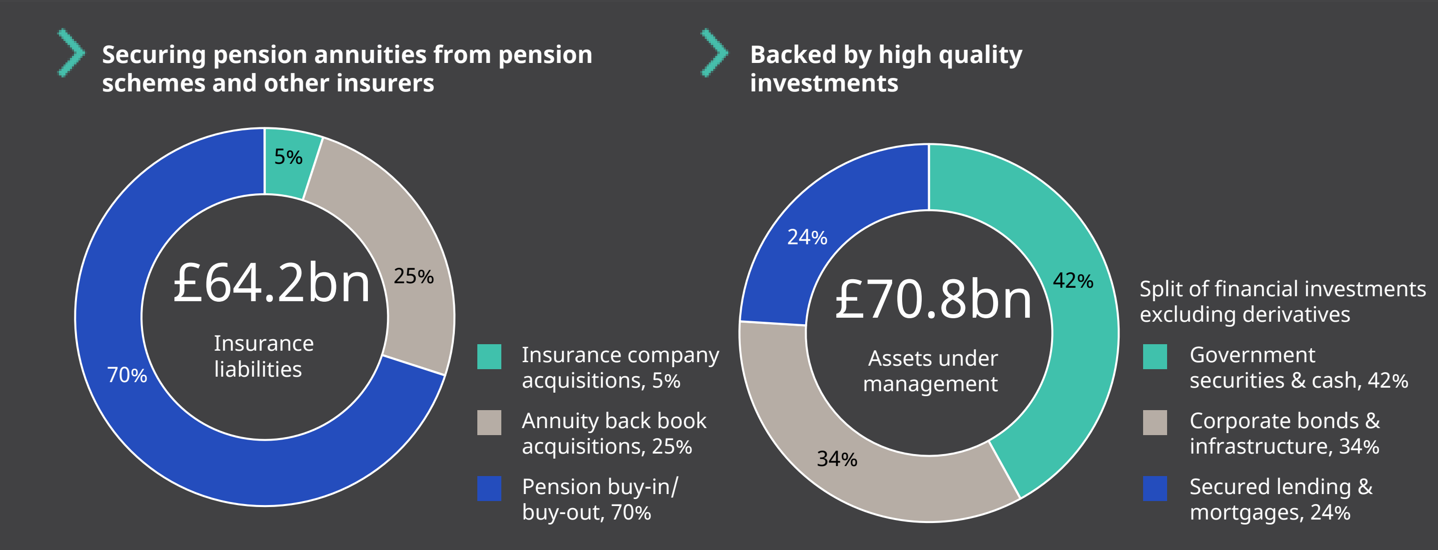
Who we are

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

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

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

Today, we manage over £70bn in assets, secure the pensions of over one million people, and pay out, on average, over £300m in pension payments each month. We are safeguarding the future for every one of our policyholders, and providing long-term value to our shareholders.



2024 Performance

£121m
IFRS profit before tax of £121m (2023: £913m).

£15.7bn
New business premiums **APM** of £15.7bn (2023: £12.7bn).

264%
Solvency capital requirement (SCR) **APM** coverage of 264% (2023: 276%), giving us significant capital for future growth opportunities.

£1,781m
Adjusted operating profit **APM** of £1,781m (2023: £1,364m).

Over £4bn
Invested over £4bn (2023: £3bn) of assets according to our long-term investment strategy.

ECB
Rothesay has entered into a multi-year partnership with The England and Wales Cricket Board (ECB) in which Rothesay became the Official Title Partner of Men's and Women's Test Matches.

£750m
Successful Tier 2 debt issuances across sterling and US dollar markets.

2024 awards
Insurance Company of the Year award from Insurance Asset Management.

96%
Customer satisfaction of 96% (2023: 94%)

Sustainability

Maintained
Carbon Neutral®
company certification

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

A4S
Became a signatory of the A4S Sustainability Principles Charter for the Bulk Annuity Process

Performance at a glance

New business premium APM

£15.7bn

Solvency Capital Requirement (SCR) Coverage APM

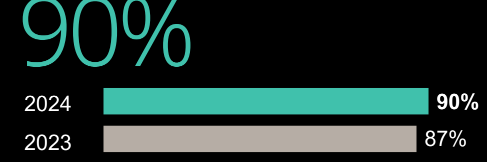
264%

IFRS profit before tax

£121m

Longevity reinsured APM

90%

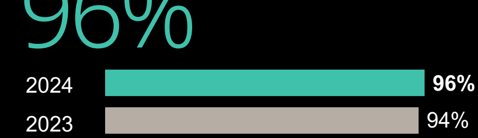


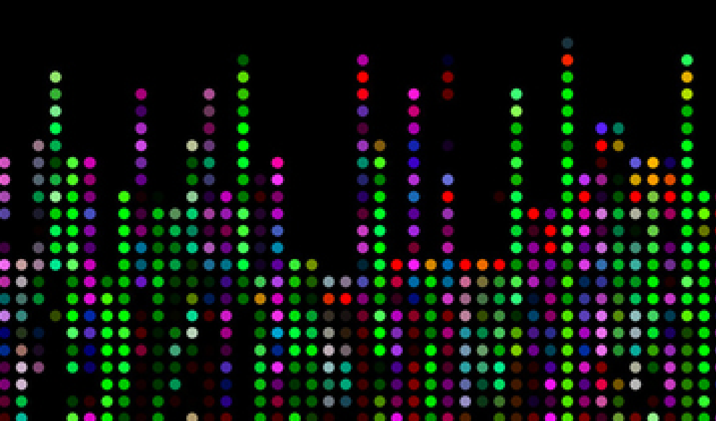
Adjusted operating profit APM

£1,781m

Customer satisfaction APM

96%





Number of policies

1,004,920

Paid to policyholders in the year

£3.8bn

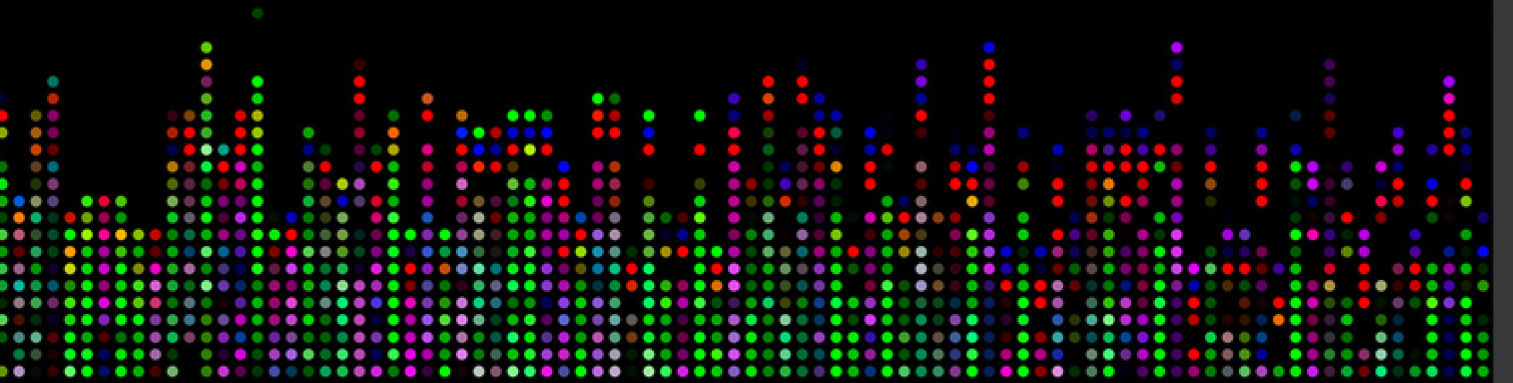
Assets under management APM

£70.8bn

1. **APM** – Alternative Performance Measure; please see page 32 for further details.

A glossary of terms used can be found on page 159.

All performance metrics are linked to our strategic goals on pages 26 and 27.



Section **one**

Strategic report

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

We successfully completed some of the largest and most innovative transactions in the market.

Tom Pearce
Chief Executive Officer

Chief Executive's statement

Rothesay continued its strong performance in 2024.

The rise in interest rates over the last few years combined with contributions from sponsors have continued to support materially improved pension scheme funding levels, making the journey to buy-out increasingly achievable for many schemes.

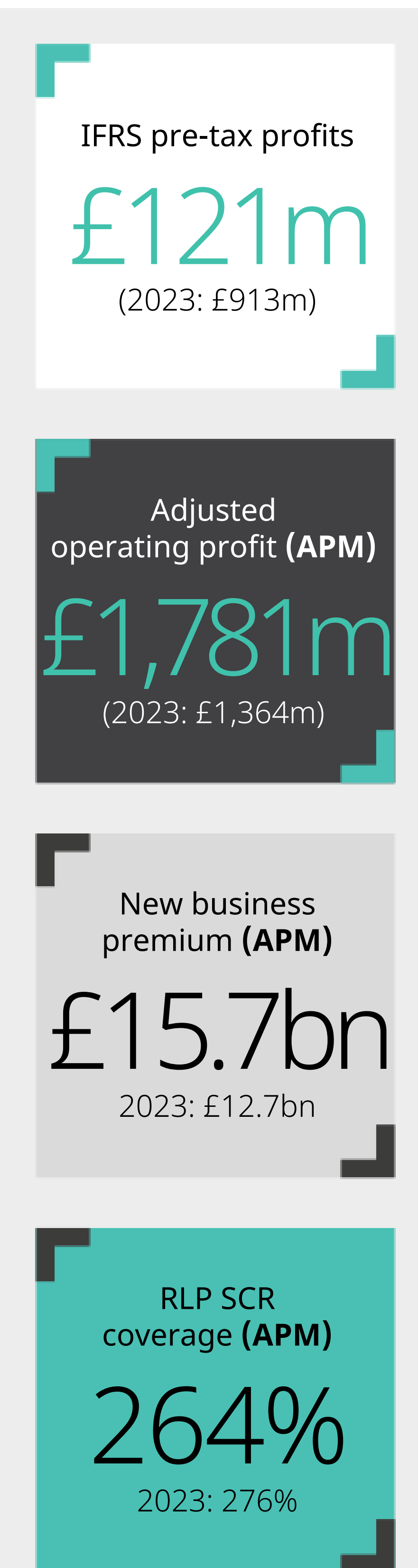
As a result, the Bulk Purchase Annuity (BPA) market continued to be very busy over the course of 2024. In a competitive market, Rothesay was engaged in pricing its largest number of individual pension risk transfer transactions in one year and successfully executed the second highest volume of new business in the history of the firm, including one of the largest ever buy-ins for a single pension scheme, a £6bn transaction with NatWest.

The positive momentum in the market over 2024 continues to build and we are seeing a very significant pipeline of pension risk transfer transactions as we look ahead to 2025. This is a continuation of the theme from prior year which saw record BPA volumes of c. £49bn in 2023 and analysts suggest that these volume levels are likely to remain high over the years ahead.

Rothesay's substantial capital resources combined with the proven strength of our execution capabilities mean we continue to be very well-positioned to capitalise on the significant new opportunities we are seeing in the market.

As part of our long-term growth strategy, we have prepared our business to have the capital capacity for even the largest risk transfer transactions which enter the market. We combine this with the ability to provide best-in-class execution capabilities and underwriting expertise, including delivering innovative solutions for our clients across all aspects of the pensions de-risking process.

We have therefore continued to invest throughout 2024 in our capabilities to provide pension schemes looking to de-risk with the simplest path to locking their current positive funding levels quickly and securely through a bulk annuity policy. At the same time, we are also able to provide bespoke solutions offering execution certainty for insurers with annuity back books they wish to sell, through investing in the capabilities which allow us to seamlessly take on in-force annuity portfolios and the assets that support them.



Chief Executive's statement continued

In order to achieve this, we have continued to develop solutions that offer price certainty from early on in the process by 'locking' pricing to the schemes' assets. We are also able to offer even the largest pension schemes, and insurers with in-force annuity portfolios, a risk solution which allows them to transition or transfer all of their existing assets in full, including illiquid assets and very large portfolios of bonds and derivatives.

As a result, in 2024 we have successfully completed some of the largest and most innovative transactions in the pensions de-risking market.

In March 2024, we announced that we had agreed to acquire Scottish Widows' multi-billion pound bulk annuity portfolio from Lloyds Banking Group, our sixth acquisition of in-force annuities from insurance counterparties.

In September 2024, we completed one of the largest ever buy-ins for a single pension scheme, with the transaction securing the future for 36,964 of NatWest pension scheme's policyholders through insuring a £6bn section of that scheme.

In addition to the two transactions above, we executed five other transactions in 2024 (2023: 12 in total), generating total new business premiums of £15.7bn **(APM)** (2023: £12.7bn), and £1,781m of adjusted operating profits before tax **(APM)** (2023: £1,364m).

We continued to see volatility in financial markets throughout 2024 due to geopolitical events as well as the ongoing uncertainty in the path of interest rates and inflation. Over the past almost 20 years, Rothesay has invested in building its own in-house technology platform which allows us to navigate and manage these risks. Our technology offers real-time financial reporting, analytics, risk and capital management and portfolio management.

Rothesay's senior executive team is therefore provided with highly granular daily balance sheets and detailed risk positions through end-to-end integration of assets, liabilities and regulatory analytics, allowing the business to react quickly and decisively to even rapidly changing economic conditions. The result means we can provide our policyholders with the highest levels of pension security while taking advantage of growth opportunities in real time as they become available in the market.

Whilst writing significant volumes of new business in 2024, we ended the year with strong SCR coverage **(APM)** of 264% (2023: 276%), above our target operating range, giving us significant excess capital to write further new business and capitalise on the opportunities we are seeing in the market in 2025.

In November 2024, we were delighted to receive the Insurance Company of the Year award 2024 from Insurance Asset Management.

Group performance

Adjusted operating profits **(APM)** for 2024 were £1,781m (2023: £1,364m), driven by profit on new business in addition to the release of margins as the in-force business runs off. Operating profits were reduced by the net increase in the Contractual Service Margin (CSM) on new business, borrowing costs, as well as the impact of economic variances, to arrive at IFRS pre-tax profits of £121m (2023: £913m).

The increase in assets from the significant volumes of new business written was partly offset by the rise in long-term interest rates and the run-off of in-force business, with the Group's assets under management **(APM)** increasing to £70.8bn (2023: £61.2bn).

Following the end of the first half of the year, the Board approved an interim dividend of 69p per share (2023: 68p per share).

Risk and capital management

As already noted, 2024 continued to see volatility in markets. The duration of our liabilities and our liability-matching assets means that Rothesay's assets and liabilities are sensitive to long-term interest rates. Our sophisticated in-house risk management systems allow us to manage this risk and respond quickly to a changing economic environment.

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

We continue to hedge market and longevity risk exposures and benefit from robust collateral arrangements which mitigate counterparty risk.

Rothesay manages its longevity risk through unfunded, collateralised longevity swaps and has not utilised any funded reinsurance. Under these longevity swaps, Rothesay retains the assets and pays a series of reinsurance premium amounts over time based on expected longevity and receives a series of reinsurance claim amounts based on actual experience. This allows us to hedge longevity risk whilst minimising counterparty risk exposure. We entered into additional longevity reinsurance agreements in 2024 primarily covering 2024 new business and 90% of our longevity exposure is now reinsured **(APM)** (2023: 87%).

In recognition of the new business opportunity that exists, in June 2024 we successfully raised a further c.£750m of Tier 2 debt. This allowed us to refinance in advance £400m of Tier 2 borrowings callable in September 2024 which we called to reduce our overall cost of debt. The new debt issuance comprised an inaugural $325m of Tier 2 debt raised in the US dollar market as well as a £500m Tier 2 sterling issuance.

Following the implementation of the first part of the Treasury's reforms to Solvency II related to the Risk Margin at the end 2023, and the second part related to the Matching Adjustment at the end of June 2024, we continue to evaluate new ways in which we can invest in UK infrastructure, clean energy and other forms of productive finance. We agree with the Government that a significant opportunity remains to unlock further investment in UK assets from across the pension sector, driving growth in the economy while continuing to provide the highest levels of pension security for our policyholders.

We also continue to engage thoughtfully on key issues with external stakeholders including our regulators, Government and wider industry in order to help shape future reforms.

In particular, we look to participate in all relevant regulatory and Government consultations where they may directly or indirectly impact our business, the wider market or our policyholders.

Our policyholders

Providing over one million people with a safe and secure pension is at the heart of what we do. We pride ourselves on the level of service we provide and I am glad to report that we maintained high service standards during 2024, with over 96% (2023: 94%) of customers rating the quality of service received as good or excellent.

Following our agreement to acquire the Scottish Widows in-force bulk annuity portfolio from Lloyds Banking Group, we will provide long-term pension security for the portfolio's underlying members, initially as a reinsurance agreement for the in-force bulk annuity portfolio, with a Part VII process now under way. I look forward to welcoming our new policyholders from Scottish Widows formally to Rothesay once that process has completed and in the meantime we are working closely with the teams at Lloyds Banking Group and Scottish Widows to transition the portfolio's members to their new long-term home.

Our people

Our people are a key strength of Rothesay and we have continued to recruit across our business during 2024.

As our headcount grew above 500 permanent employees, we completed the fit-out of a further two floors of The Post Building. This extra space will allow colleagues to continue to collaborate easily across all parts of the business, supporting our cultural values of excellence in everything we do, innovation and teamwork. I remain incredibly proud of our levels of employee engagement.

Pathway to Net Zero

At Rothesay, we are clear that embedding sustainability principles across our business plays a fundamental role in us being able to deliver on our central purpose: providing our current and future policyholders with security for the future. We are therefore focused on creating a positive impact through all of our operations and for all of our stakeholders, including our policyholders, our suppliers, our people, our community and our investors.

2024 was the warmest year on average over the globe since records began. While a single year may be anomalous in the context of a long-term average, and there has been a huge effort from nation states and companies across the world to reduce greenhouse gas emissions, it is clear that further actions will be needed in this field.

This year we have published some new short-term priorities identified through our transition planning process. These have been added to support our overall target of transitioning our investment portfolio to Net Zero greenhouse gas emissions by 2050 by providing new, more near-term milestones which will need to be reached along our Pathway to Net Zero[1]. Central to these is a new commitment to achieving a 50% Carbon Intensity reduction across our total investment portfolio by 2030, building on our target, introduced last year, to see a similar reduction across our publicly traded corporate debt portfolio.

For more information, please see both our 2023 Sustainability and Climate Reports, the latter of which is aligned with the Task Force on Climate-related Financial Disclosures. The report can be downloaded from our website at: www.rothesay.com/about-us/environmental-social-governance/our-reports-and-governance.

1. Our Net Zero commitment is science-aligned, focusing on taking actions that are consistent with the Paris Agreement's long-term goal of limiting global warming to 1.5°C above pre-industrial levels.

Chief Executive's statement continued

ECB partnership: Title Partner of Test Cricket

During 2024, Rothesay announced a new multi-year partnership with the England and Wales Cricket Board (ECB), the national governing body of cricket.

Through the partnership, Rothesay became an Official Partner of England Cricket and the Official Title Partner of Men’s and Women’s Test Cricket. Rothesay branding will feature at every England Men’s and Women’s Ashes Test Matches, and at England Women’s home matches across all formats.

We look forward to partnering with the ECB to support the future of cricket and helping to inspire all generations by making cricket a game for everyone.

In addition, during 2024 Rothesay concluded the final year of its partnership with the LTA (the national governing body for tennis in Britain), as the title sponsor for three of the Summer’s show-piece grass court international tennis tournaments.

Charitable donations

We encourage our employees to support charities personal to them through our matched giving policy, which gives everyone an annual matched allowance of £1,000. In response to current global conflicts we encouraged our people to make donations in 2024 to support relief efforts by offering an additional £1,000 allowance to any charity of their choice. These donations were matched at a rate of 4:1 so charities can receive up to £5,000 in total.

The Rothesay Foundation continued to make positive progress throughout 2024, expanding the breadth and depth of support it is able to provide for pensioners living in deprivation across the country.

Along with a number of other initiatives it is supporting to help the vulnerable elderly, the Rothesay Foundation has provided £2.47m to Age UK to significantly expand its flagship national benefits check service. The funding will allow Age UK to help an additional 11,000 pensioners unlock £55m of annual benefits they are entitled to and support the Government's campaign to raise public awareness of these benefits.

The new funding follows the success of the pilot campaign in 2023-2024 which helped more than 4,500 older people find out if they were eligible for state support, identifying a total of £23m of additional annual benefits for these individuals (an average of £6,600 per successful applicant with 76% of applicants found to be eligible).

Looking forward

Improved pension scheme funding levels driven by the rising long-term interest rates environment are making de-risking increasingly affordable for pension schemes, creating positive conditions in the BPA market. Many sponsors who had not previously thought that buy-out could be feasible for their schemes in the near term are now able to affordably de-risk within the existing assets of the scheme. This is generating exciting new business opportunities which we are converting at scale, completing some of the largest and most tailored transactions in the history of both our firm and the wider pension de-risking market.

With the market continuing to be buoyant, we are ideally placed to maintain this momentum with a significant capital surplus and our two long-term, supportive shareholders. This, combined with our track record of executing large innovative transactions, means we are able to capitalise on the growth opportunities in our market while preparing to respond to a potentially even busier pipeline of new business in the years ahead. We expect this unique combination of our capital position, execution capabilities and shareholder support will allow us to grow our assets under management over the next few years.

As always, we will deliver this growth in our business while maintaining pricing discipline, and providing pension security and service excellence for our policyholders while delivering long-term value to our shareholders.

Tom Pearce
Chief Executive Officer
14 February 2025

Our market

Protecting pensions is Rothesay's sole purpose and we are fully committed to the UK bulk annuity market to secure the future for all our stakeholders.

We have seen unprecedented growth in market volumes recently, with 2024 having been another big year in the history of the market.

Rothesay's core market is the UK pension scheme Bulk Purchase Annuity (BPA) market. Trustees of pension schemes purchase BPA policies with insurers such as Rothesay to help them de-risk their scheme's uncertain asset and liability cashflows.

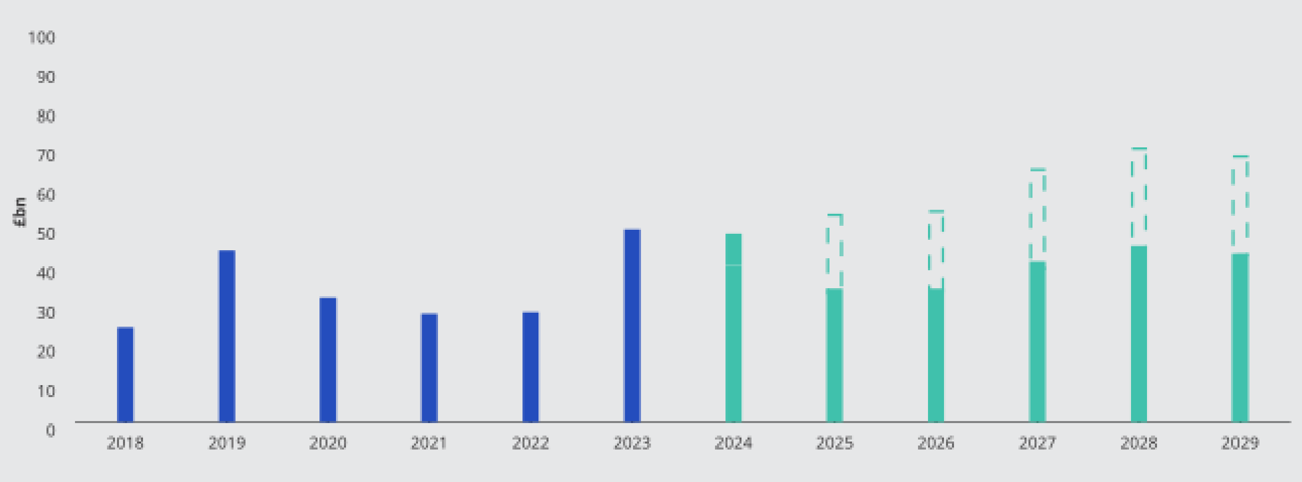
These BPA policies may take the form of a 'buy-in', where Rothesay makes annuity payments in bulk to the ceding pension scheme which then makes onward payment to its members, or a 'buy-out' where the pension scheme members become direct policyholders of Rothesay.

Significant recent improvements in pension scheme solvency have meant that BPA policies have become increasingly affordable for pension schemes, and commentators forecast that this demand is not expected to slow down in the foreseeable future.

2023 and 2024 exhibited record breaking volumes of c. £49bn BPA policies per year, with more schemes de-risking than ever before. As shown in the chart below LCP projections indicate that annual volumes over the next five years could meet, or exceed those observed over the past two years.

It is clear that buy-ins and buy-outs will continue to be an essential de-risking tool for trustees and sponsors of UK defined benefit pension schemes.

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



Our market continued

Pension schemes have become increasingly well-funded with rising interest rates and sponsor contributions, so insurers have been preparing for an increase in demand for bulk annuities for some time.

However, a key catalyst for the recent spike in demand in this market was the shift in the interest rate environment in recent years, which has resulted in significant funding gains for many defined benefit schemes. For some schemes, this meant that they were left with a surplus after completing a bulk annuity transaction during 2024. We're also seeing sponsors accelerating contributions already committed in order to fund their scheme's de-risking, locking down the pension risks on their corporate balance sheet.

The market has needed to adapt to the requirements of schemes which have reached their funding targets earlier than anticipated, and schemes in the market today are very well prepared for a bulk annuity transaction. A few key market developments from the year were as follows:

- **'Jumbo' Transactions:** We are seeing larger pension schemes coming to market, where trustees previously considered their schemes too big to insure. Rothesay has a particular interest in these transactions. Transaction size is not a constraint for us – we are able to execute large, full scheme solutions and we are well placed to cope with the complexities that these larger transactions often bring. This was evidenced in 2024; we insured a further £9.6bn of liabilities with NatWest Group Pension Fund, one of the largest DB schemes in the UK.
- **Full Scheme Solutions:** Historically, partial scheme coverage via longer-term pensioner buy-ins have been the most prevalent type of transaction in the market. However, there has been a shift in more recent years as trustees and sponsors often decide to secure the whole pension scheme in one go whilst it is affordable within the scheme's assets. Consequently, most bulk annuity transactions that have taken place in the market since 2023 have involved deferred members. Ultimately, most schemes we complete transactions with will buy-out and scheme members will become policyholders of Rothesay.
- **Accommodating Scheme Illiquid Asset Holdings:** Many such schemes have found that whilst they can afford a bulk annuity transaction within their asset value, some of their investments are illiquid in nature and require a solution as part of the de-risking process. The range of options available to schemes continues to expand as the market evolves, and options for dealing with these illiquid assets include sales on the secondary market, transferring these assets to an insurer as part of the premium payment, or deferred premium structures to accommodate an orderly sales process over a period of time. We work alongside the schemes to provide the solution which best meets their objectives, and have continued to build out our in-house transition team to ensure we can provide all of these options.
- **Tailored Risk Cover:** With many more schemes approaching the market with a surplus funding position, trustees are often requesting residual risk cover for their schemes as a use of this surplus. We have worked to tailor solutions to the desired level of risk coverage, and increasingly we are seeing significant attention paid to data cleansing requirements.

- **In-house Asset Transition team:** With such volatile market conditions experienced in recent years, it has remained of the utmost importance for schemes to lock in their insurance pricing by linking the premium closely to the scheme's assets during the transaction execution process, locking down market and investment risk in the run-up to premium payment. We have seen asset transition requirements remain a key feature of bulk annuity transactions over the last year, and insurers' ability to take on a scheme's assets as part of a transaction is critical. At Rothesay, our in-house asset transition team is responsible for this part of the process, focusing on the transfer process for liquid assets and derivatives, as well as illiquid investments.

This increased demand from pension schemes has led to even higher numbers of bulk annuity transactions in the market in 2024 than ever before. Insurers continue to have a strong appetite to win new business and pricing continues to remain competitive which, when combined with improvements in pension scheme funding levels, means that BPA pricing is highly affordable for pension schemes. We expect the market to remain buoyant for the foreseeable future.

Our business model

Securing the future for our policyholders.

1

Underwriting and execution

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

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

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

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

2

Deliver the pension benefits

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

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

We are focused on comprehensive, responsive, and efficient policyholder service during the transition and beyond. We are proud that 96% of our policyholders rate our service as ‘good’ or ‘excellent’.

1. Underwriting and execution

2. Deliver the pension benefits

3. Transition and invest the assets

4. Long-term risk management

Pension de-risking timeline

3

Transition and invest the assets

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

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

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

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

Long-term risk management

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

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

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

Our business model
continued

Why we are successful

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

Purpose-built

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

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

Financial strength

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

Careful investment

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

Unique integration

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

Sophisticated technology

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

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

Original thinking

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

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

Service excellence

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

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

Rothesay culture

We aim to substantially mitigate the financial risks in our portfolio in order to protect policyholders, lock in value and to safeguard capital surplus such that excess capital may be invested into attractive risk-adjusted new business opportunities where Rothesay believes it has a comparative advantage. Importantly, we will always do the right thing for the benefit of all of our stakeholders.

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

The Journey to Buy-out

In 2024, Rothesay published the fourth edition of its guide to the UK bulk annuity market.

In this section, we have provided an update on our 'The Journey to Buy-out' series, capturing some of the most significant developments and current themes seen in the pension risk transfer (PRT) market today.

The market today

The UK's PRT market has experienced unprecedented growth over the last few years, with 2024 having been another transformative year in its history.

The increase in the interest rate environment over recent years has been a significant catalyst in driving this growth, alongside a prolonged period of deficit recovery contributions from sponsors. Combined, these two factors resulted in material funding gains for many defined benefit (DB) schemes, expediting their journey to buy-out. At the same time, insurers have been preparing for higher levels of scheme demand for a number of years, investing accordingly in their ability to execute previously unprecedented volumes of new business.

Consequently, the increase in schemes' appetite to de-risk is being met by a corresponding increase in insurers' capacity and capabilities to meet this demand and write record levels of business. This dynamic is driving healthy competition amongst insurers in the market, with positive outcomes for schemes. As well as providing schemes with competitive pricing, this encourages insurers to create innovative de-risking solutions as schemes' requirements evolve (for instance, by being able to offer schemes solutions which allow them to transfer all of their existing assets in full, including illiquid assets).

The result is that more schemes than ever are able to de-risk while at the same time the market is seeing its largest ever transactions taking place, including the rise of so called 'Jumbo Deals' with multi-billion pound values. Rothesay's own business has been characteristic of this market dynamic in 2024: we executed one of the largest ever buy-ins for a single pension scheme and were engaged in pricing our largest number ever of individual pension risk transfer transactions in one year too.

> ...more schemes than ever are able to de-risk while at the same time the market is seeing its largest ever transactions taking place, including the rise of so called 'Jumbo Deals'...

The Benefits of a Buy-Out

The operation of Defined Benefit pension schemes can involve managing very large and complex financial risks and incur significant operational costs for pension schemes and their sponsors. Therefore, many schemes aim to be in a position where these risks can be safely transferred to the insurance sector, providing a very high level of pension security for their schemes' members. In recent times, schemes often have surplus assets available after securing their liabilities through insurance, which can be crystallised through the buy-out process and used for the benefit of pension scheme members and/or returned to the sponsor for use within their business.

Most of the pension schemes and sponsors with whom we engage have an ultimate objective to settle their liabilities through insurance, in doing so transferring all risks associated with these liabilities with the highest level of security for pension scheme members. Each scheme's time horizon and exact strategy for doing so will vary depending upon the individual circumstances of the scheme (size, maturity, funding level, asset composition) and we work together with each scheme to deliver the best solution that meets their objectives, with the common aim of securely delivering the benefits that their members have been promised.

A buy-out provides corporate sponsors with a way to fulfil this promise with certainty. It provides scheme members with a very high level of financial security, protecting their pensions for the future and ensuring that they are paid in full for the years ahead. At the same time, it means corporate sponsors are able to de-risk their balance sheet, allowing them to focus on the growth of their business and, where applicable, unlock the financial surplus which has built up in the scheme in a way which also reduces the risks faced by the scheme members.

The Journey to Buy-out
continued

Developments in the De-Risking Market

With a total volume of £1.2 trillion of closed DB schemes still uninsured, the demand for de-risking solutions is forecast to remain high for the foreseeable future.

This has led to the UK PRT market becoming a significant growth market, which has encouraged an increased interest in the market from new entrants in the UK. This will provide further support for the market to continue to grow, and to meet the demands of an increasing number and type of schemes with a desire to de-risk.

From an operational perspective, schemes, advisers and sponsors have continued to work very hard at increasing their preparedness to come to market to seek insurance. The quality of policyholder data and organisation of schemes' governing documentation is much improved over recent years, which makes transaction processing more efficient, particularly where schemes are requesting quotations for residual risk cover. At Rothesay we also utilise high levels of automation and technological solutions throughout the journey to buy-out to create further efficiencies that allow us to respond to the demands of the growing market. This also extends to administration, enabling us to cater for high volumes of transaction demand whilst continuing to provide the highest standards of service to all of our policyholders.

The market capacity for unfunded "longevity swap" reinsurance remains high with a large number of participants involved in this market, and we continue to reinsure a significant proportion of the longevity risk that we take on through our de-risking transactions via fully collateralised longevity swaps. Pricing in the longevity swap market remains competitive, and pension schemes benefit from this competitive pricing being passed on through pricing of pension risk transfer transactions. We have not transacted any funded, or "asset-intensive" reinsurance.

Full scheme solutions are the primary focus for most schemes coming to market, and we strive to provide the most complete solution we can in order to address the needs of each individual client. We aim to reduce the risks for schemes and their sponsors as early on as we can in the process by "locking" our pricing to the scheme's underlying assets, taking full delivery of in situ portfolios including derivatives and illiquid assets, and through providing capacity for even the largest transactions that come to market. Each pension scheme is unique and we will work together with schemes, their sponsors and their advisers to achieve the best outcomes.

Investment Driving UK Economic Growth

UK Life insurers operate under the Solvency UK regime, under the regulatory oversight of the Prudential Regulation Authority (PRA). The introduction of the Solvency UK regime was, in part, designed to facilitate increased investment in UK infrastructure, clean energy and other forms of productive finance.

To give a sense of scale, Rothesay alone invests over £42bn in the UK economy including sustainable investments across companies and sectors like social housing, education, healthcare and renewables as well as UK Government debt which is used to finance spending across the public sector. We are committed to investing at scale in productive UK assets over the years ahead.

Solvency UK reform has significantly supported annuity providers' ability to deploy these higher volumes of capital in a wider range of productive assets than we were able to under the previous Solvency II regime, and we are confident that this will continue to evolve positively as the new regime becomes more established.

Due to the fixed and long-term nature of the defined benefit pension policies we protect, we will only ever invest in assets which provide the highest levels of security for our policyholders.

We are committed to working with the Government to continue to grow our investment in UK productive assets with our significant and long-term support for the UK economy through the Gilt market. This includes working with the Government, and Government-supported bodies like the National Wealth Fund, to explore new public-private partnerships which could facilitate our sector's investment in innovative and nascent types of productive asset, including low-carbon energy generation technologies, which UK life insurers have traditionally been able to invest in at scale. Through such partnerships, we believe there is the potential for these assets to effectively match our liability cash flows while providing appropriate levels of security and risk-adjusted returns.

Rothesay invests over

£42bn

in the UK economy

Looking ahead

Over 2023 and 2024 we have seen record breaking levels of UK PRT taking place, and there is scope to meet, and even exceed, these levels in the coming years. Pension scheme funding levels are strong, the supply of insurer de-risking solutions has never been healthier, and there is great potential to further support the UK's economic growth through productive investment while ultimately achieving the goal of financial security for members.

In this way, the PRT market continues to play a vital and growing role in the UK, protecting the future for millions of people and helping to drive economic growth.

In this way, the PRT market continues to play a vital and growing role in the UK, protecting the future for millions of people and helping to drive economic growth.

Our investments

Our in-house investment team continues to invest in assets in line with our long-term investment strategy.

Rothesay's £70.8bn asset portfolio is managed by our in-house team. Assets are sought which match our long-term liability cash flows and which provide an appropriate risk-adjusted return, with cautious cash buffers retained in order to meet our liquidity requirements. Rothesay has a careful approach to investment which seeks to reduce exposure to unrewarded risks and provide real security for people's pensions in the future, whilst ensuring suitable and predictable overall returns.

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

Rothesay continued to invest its assets in a measured way over 2024 and we go into 2025 with a balance of assets from new liability transactions that will be invested patiently over 2025 in line with our long-term asset strategy.

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

The portfolio can be divided into three broad categories.

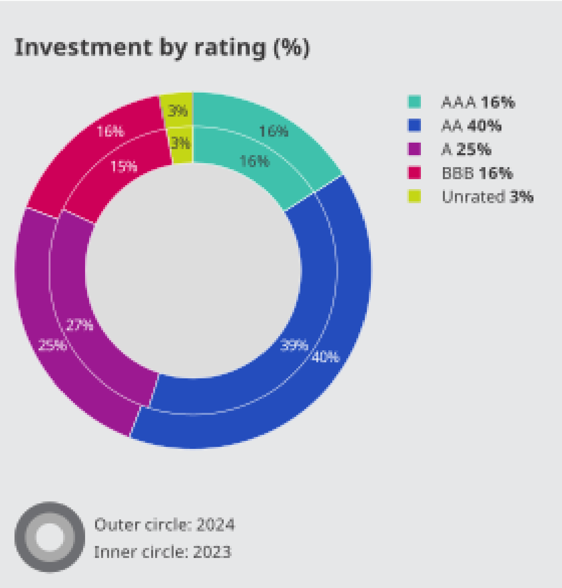
- **Cash and government bonds** – This part of the portfolio is available for future investment and to meet collateral calls and cash requirements and backs some of our very long-dated cash flows.
- **Corporate bonds and infrastructure** – We invest in a diversified portfolio of highly rated corporate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

The following charts provide a breakdown of our financial investment portfolio excluding derivatives at 31 December 2024 and 31 December 2023 by asset class.

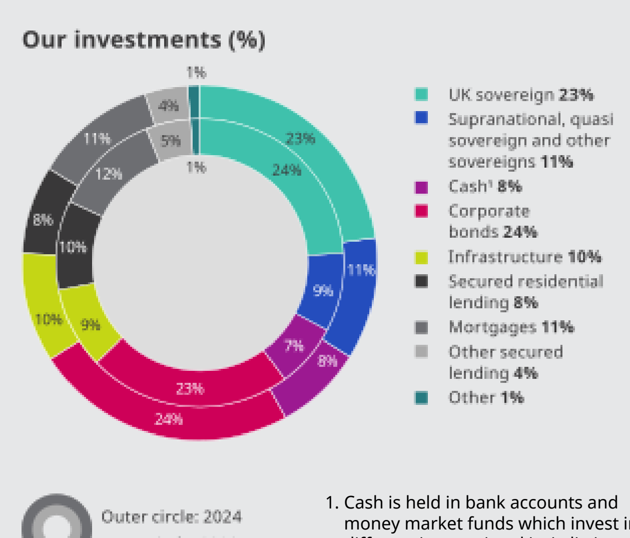
Corporate bonds and infrastructure

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

Investment by rating (%)



Our investments (%)



1. Cash is held in bank accounts and money market funds which invest in different international jurisdictions

Of our £27bn holding of corporate bonds and infrastructure, around 39% (2023: 38%) (or 14% of total assets) is rated BBB and of those only £0.6bn is rated BBB- (2023: £0.2bn). The vast majority of the remainder are rated A or above. As at 31 December 2024, Rothesay holds only £30m of sub-investment grade bonds (2023: £42m).

Real estate lending

As at 31 December 2024, the value of our lifetime mortgage portfolio is £6.4bn (2023: £6.2bn). We apply a cautious approach when underwriting mortgages, with newly originated lifetime mortgages having an average loan-to-value ratio of 27% (2023: 26%). Lifetime mortgages now represent 9% of assets under management (2023: 10%).

We also continue to fund long-term, fixed rate mortgages in both the UK and the Netherlands, and have further diversified into French home loans, increasing our long-term, fixed rate mortgage portfolio to £2.3bn (2023: £1.7bn).

Rothesay's commercial real estate lending exposure is primarily through senior debt financing of landmark property assets with highly rated tenants and owners, and low loan-to-value ratios. The average loan-to-value ratio on our commercial real estate debt is around 56% (2023: 53%).

Rothesay also invests in long-dated assets secured on cashflows from residential freehold properties. In 2024, the UK Parliament passed the Leasehold and Freehold Reform Act 2024 which impacts some cashflows derived from the underlying freehold properties. These legislative changes were anticipated and therefore the valuation of these secured assets had reflected these changes in advance of legislation being passed.

Uncertainty remains surrounding the secondary legislation that is required to implement the Act, in addition to any further future legislative or regulatory changes which may further impact the residential freehold sector. The valuation of the assets continues to reflect legislative uncertainty informed by scenario analysis based on statements from the Government and wider discussions, including with legal experts and other market participants.

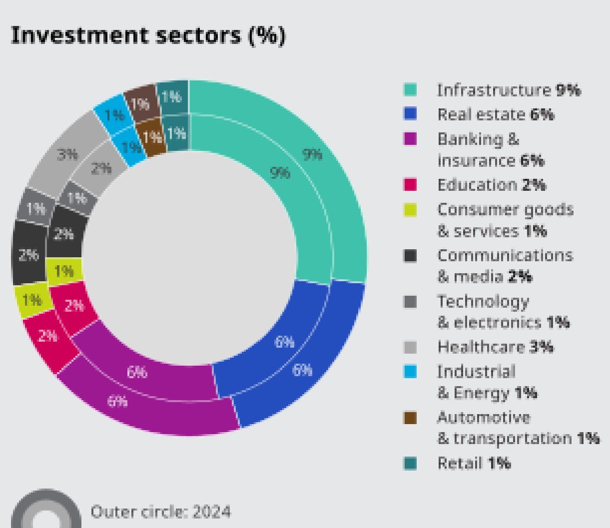
International diversification and sustainability

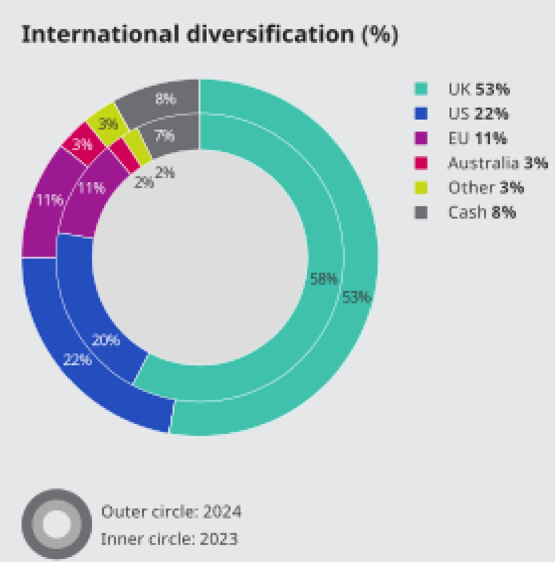
The majority of Rothesay's investment portfolio is invested in UK assets, however geographic diversification continues to be a key part of Rothesay's risk management, and with our well-established and growing operations Rothesay Asset Management North America and Rothesay Asset Management Australia,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

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

We are aligning our investment portfolio with the goal of the Paris Agreement to limit global warming to 1.5°C above pre-industrial levels and are committed to supporting a low-carbon economy in which the UK achieves Net Zero by 2050.

The chart below provides a breakdown of our investment portfolio at 31 December 2024 by country of exposure.





Our strategy and KPIs

Financial security

SCR coverage (APM)

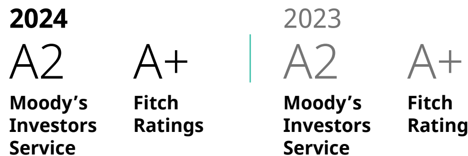
Indicates capital strength through comparing how the Group is capitalised relative to the regulatory requirement

Assets under management (APM)

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

External ratings

Impartial indicators of RLP's Financial Strength



2024 progress:

- Whilst writing significant volumes of new business over the year, we have surplus capital of £5.4bn (2023: £5.5bn) which means that we are well-placed for future growth opportunities.
- Following the annual review of RLP's financial strength by the credit rating agencies, Fitch and Moody's reaffirmed our ratings with stable outlooks.
- Assets under management **(APM)** have increased to £70.8bn (2023: £61.2bn) predominantly driven by the receipt of new business premiums, partially offset by rising interest rates.
- Reinsured £14bn of liabilities via unfunded longevity swap transactions, giving reinsurance coverage of 90% (2023: £10.1bn to give 87% coverage). We have not transacted any funded reinsurance.

Opportunities in 2025 and beyond:

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

Generate long-term value through new business

IFRS profit before tax

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

New business premiums (APM)

Signals the Group's growth

2024 progress:

- Adjusted operating profits of £1,781m (2023: £1,364m) **(APM)** driven by profit on new business in addition to release of margins as the business runs off and investment outperformance. Operating profits were reduced by the net increase in the CSM on new business, as well as borrowing costs, and the impact of economic variances, to arrive at IFRS profit before tax of £121m (2023: £913m).
- In 2024, we acquired Scottish Widows' annuity portfolio and executed six further transactions, which generated £15.7bn of new business (2023: £12.7bn) **(APM)**.
- Grew the Rothesay team by 79 talented individuals across the Group.

Opportunities in 2025 and beyond:

- Continue to assist pension schemes to de-risk through new pension risk transfer transactions. Given the strength of the pipeline, we anticipate significant new business opportunities in 2025 and beyond.
- Continued investment of assets received from new business transactions into Rothesay's long-term investment strategy.
- Continued innovation to ensure that we provide the best solutions for our clients and partners.

Service excellence

Service quality

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

Complaints

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

2024 progress:

- Diligent oversight of our Third Party Administrators (TPAs) by our own in-house team has ensured that policyholder service standards have remained extremely high.
- Continued focus on service excellence for our customers.
- Ongoing commitment to upholding Consumer Duty principles.

Opportunities in 2025 and beyond:

- Continue to excel in customer service.
- Continue to expand our in-house administration platform which uses our own record of all member benefits and future payments to ensure a data transition to our administration partners that is seamless to our new policyholders.
- Continue to comply and focus on the Consumer Duty to ensure good outcomes for all policyholders.

Act in the interest of all stakeholders

Employee engagement rate

Measures the number of employees who responded to the annual employee survey[1]

2023 **94%**
2022 94%

Carbon intensity

Measures carbon intensity of Rothesay’s investment portfolio

2024 **183t**
2023 183t

2024 and 2023: CO_2e/million USD borrower revenue

2024 progress:

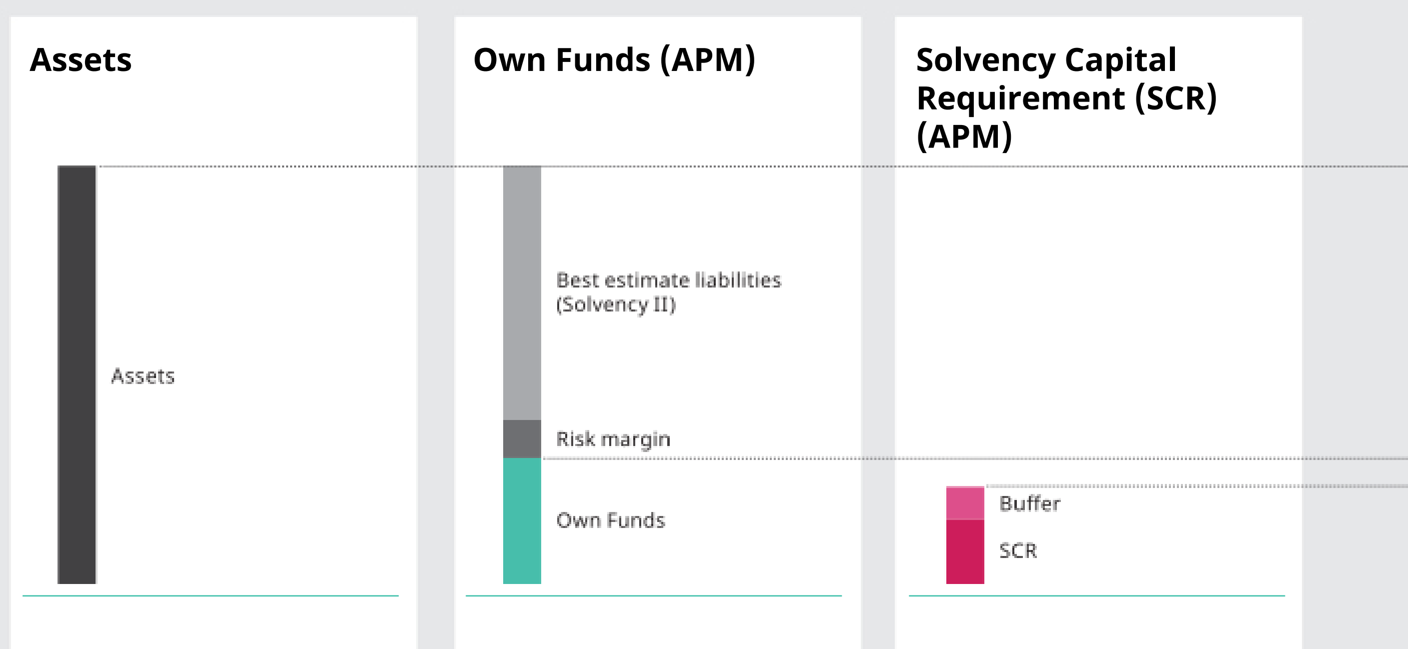
- Continue to enhance our capabilities in climate risk management and reporting.
- New commitment to a 50% reduction by 2030 in the Carbon Intensity of our total portfolio.
- Became a signatory of the A4S Sustainability Principles Charter for the Bulk Annuity Process.

Opportunities in 2025 and beyond:

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

1. The 2024 employee survey was deferred until early 2025 with a refreshed process and planned enhancements to drive our people strategy.

How our financial KPIs are connected



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

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

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

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

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

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

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

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

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

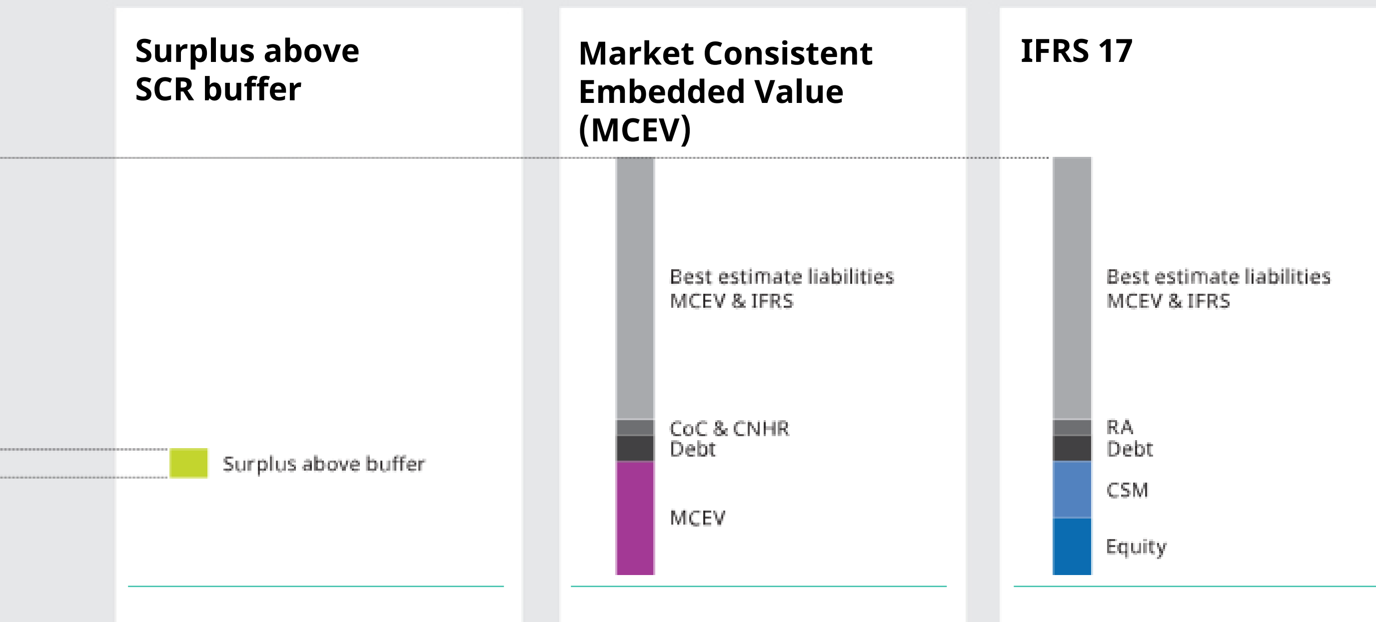
This is by design as the SCR itself is sensitive to interest rates and inflation due to its long duration.

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

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

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

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



Surplus above SCR buffer

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

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

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

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

Market Consistent Embedded Value (MCEV)

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

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

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

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

IFRS 17

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

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

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

The market risk dynamics between adjusted IFRS equity and MCEV **(APM)** are broadly comparable.

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

Charts are illustrative and not to scale

Financial review

Today we manage over £70bn in assets, secure the pensions of over 1,000,000 people, and pay out, on average, over £300m in pension payments each month.

Graham Butcher
Chief Financial Officer

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

Financial performance

Adjusted operating profits **(APM)** for 2024 were £1,781m (2023: £1,364m), driven by profits on new business, the release of margins as the business runs off, as well as outperformance in relation to new investments made during the year. Adjusted operating profits **(APM)** were reduced by the net increase in the Contractual Service Margin (CSM) on new business, borrowing costs and the impact of economic variances, to arrive at IFRS pre-tax profits of £121m (2023: £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 155.

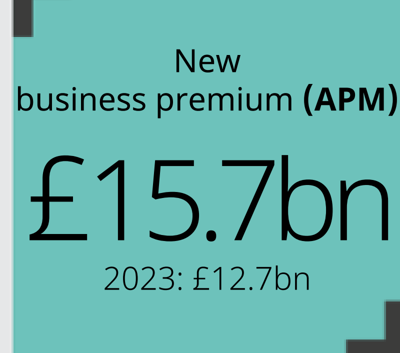
New business profit **(APM)** represents the value of the premiums charged less the best estimate liabilities taken on, less the risk adjustment. After the deduction of the allocated acquisition expenses, this is equal to the new business CSM including the impact of new reinsurance. New business profit **(APM)** for the year was £886m (2023: £767m).

Financial performance (Alternative analysis of profit generation) (APM)	2024 £m	2023 £m
New business profit	**886**	767
Acquisition expenses allocated to new business	**(196)**	(201)
Performance of the in-force book	**1,104**	655
Non-economic assumption changes and model refinement	**(13)**	143
Adjusted operating profit before tax	**1,781**	1,364
Increase in CSM	**(735)**	(731)
Borrowing costs	**(164)**	(121)
Economic (losses)/gains	**(761)**	401
IFRS profit before tax	**121**	913

RLP solvency capital requirement **(APM)**

264%

2023: 276%



Financial review continued

Under IFRS 17, profits on new business and from insurance related experience and non-financial assumption changes are largely held back as what is known as the CSM. The CSM represents a significant store of future value that will result in a stream of future insurance profits. Insurance businesses that are growing are likely to see an increase in CSM as the CSM created from new business written during the year exceeds the CSM released during the year. The net increase in CSM was £735m (2023: £731m) as shown in the table below. Strong new business performance has continued to see the CSM increase in 2024.

Profits generated on the in-force book **(APM)** were £1,104m (2023: £655m). These profits mainly arose from investment returns on surplus assets and the release of the risk adjustment as the business runs off. Profits generated on the in-force book also includes the outperformance in relation to new investments made during the year relative to those assumed in new business underwriting, as well as the impact of operating expenses.

Rothesay made economic losses **(APM)** during the year of £761m (2023: gains of £401m). Economic gains/(losses) **(APM)** represent the change in value of assets from changes in economic conditions less the change in value of liabilities from those changes. During the year, economic losses were mainly driven by the impact of increases in interest rates. Rothesay focuses its interest rate hedging strategy on managing the trade-offs between the MCEV and solvency balance sheet measures, which can result in some volatility in relation to economic gains/(losses) on IFRS as a result of changes in long-term interest rates.

Movement in CSM	2024 £m	2023 £m
CSM at the start of the year	**5,192**	4,461
New business CSM	**690**	566
Interest accretion on CSM	**167**	108
Change in CSM as a result of experience and assumption changes	**542**	456
Release of CSM	**(664)**	(399)
Increase in CSM	**735**	731
CSM at the end of the year	**5,927**	5,192

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, both the prescribed IFRS results and disclosures, as well as a number of Alternative Performance Measures **(APM),** are necessary to fully reflect long-term value or changes to capital requirements. Rothesay therefore includes within these accounts a number of Alternative Performance Measures **(APMs)** which focus on value generation and capital strength to reflect the performance of Rothesay. Further information on Rothesay's APMs can be found on page 155 including definitions, why the measure is used and, if applicable, how the APM can be reconciled to the nearest GAAP measure. Rothesay uses the symbol **APM** to highlight APMs throughout the financial statements.

IFRS income statement highlights

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

Income statement highlights	2024 £m	2023 £m	Commentary
Insurance service result	**696**	420	The insurance service result is the difference between the actual and reserved cost of delivering insurance service, predominantly driven by the release of the CSM and Risk Adjustment (RA) in the year due to services provided and risk expired.
Net financial result	**144**	1,114	The net financial result is primarily driven by interest earned on assets above liabilities plus the impact of changes in economic conditions.
Operating expenses	**(81)**	(116)	Operating expenses are exclusive of costs included in fulfilment cashflows and attributable acquisition costs. A breakdown of expenses is provided in note B.3.
Finance costs	**(638)**	(505)	Finance costs represent interest payable on borrowings and on collateral. For further details see note B.4.
Profit before tax	**121**	913	

IFRS statement of financial position

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

Statement of financial position highlights	2024 £m	2023 £m
Financial investments	**117,428**	98,968
Reinsurance contract assets	**302**	216
Deferred tax asset	**569**	637
Other assets	**5,316**	3,416
Total assets	**123,615**	103,237
Share capital and share premium	**684**	510
Tier 1 notes	**793**	793
Reserves	**2,839**	3,138
Total equity	**4,316**	4,441
Insurance contract liabilities	**64,222**	54,630
Reinsurance contract liabilities	**223**	461
Payables and financial investment liabilities	**51,976**	41,233
Borrowings	**2,616**	2,248
Other	**262**	224
Total liabilities	**119,299**	98,796
Total equity and liabilities	**123,615**	103,237

Financial review continued

increased from £61.2bn as at 31 December 2023 to £70.8bn as at 31 December 2024, driven primarily by new business premiums. A reconciliation of assets under management is provided in the notes on Alternative Performance Measures on page 155.

Borrowings

Borrowings increased to £2,616m (2023: £2,248m) as a result of the issuance by Rothesay Life Plc of approximately £750m of Tier 2 notes in June 2024, partially offset by the repayment of £400m Tier 2 borrowings in September 2024.

Insurance liabilities

Insurance contract liabilities, which consist of the best estimate liabilities, the risk adjustment and the CSM, increased from £54.6bn as at 31 December 2023 to £64.2bn as at 31 December 2024. This move was largely driven by the impact of new business (see notes E.1 and E.2).

Total equity and adjusted equity (APM)

The decrease in total equity (a decrease of £125m from £4,441m at 31 December 2023 to £4,316m at 31 December 2024) was primarily driven by £361m dividends and £36m RT1 coupons paid (net of tax) during 2024 offset by IFRS net profits and Rothesay Limited's £174m investment.

Adjusting total equity for the CSM net of tax and the value of the sterling-denominated RT1 debt gives adjusted equity **(APM)** of £8.0bn (2023: £7.5bn). This provides a useful valuation metric which includes the expected future profits on Rothesay's in-force business.

Capital management

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

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

- To ensure that our liabilities to policyholders can be met in a full and timely manner;
- To give customers long-term confidence in Rothesay;
- To satisfy our regulatory obligations;
- To match the profile of our assets and liabilities, taking account of the risk inherent in the business;
- To allocate capital efficiently to support new business growth;
- To retain financial flexibility by maintaining strong liquidity; and
- To provide an appropriate return to shareholders.

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

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

As at 31 December 2024, RLP had a SCR coverage ratio **(APM)** of 264% (2023: 276%), meaning that although Rothesay wrote significant new business volumes in 2024, we still have very material excess capital available to support further new business. The solvency position of RLP is summarised in the table below.

Solvency position of RLP	2024 £m	2023 £m
Tier 1 capital unrestricted	**6,013**	6,024
Tier 1 capital restricted	**984**	984
Tier 2 capital	**1,733**	1,402
Tier 3 capital	**471**	458
Own Funds available to meet SCR	**9,201**	8,868
Ineligible capital	**(573)**	(310)
Own Funds **(APM)** eligible to meet SCR	**8,628**	8,558
SCR	**(3,262)**	(3,101)
Surplus above SCR	**5,366**	5,457
SCR coverage (APM)	**264%**	276%
SCR coverage without transitional solvency relief	**258%**	267%

In June 2024, RLP issued £500m of GBP Tier 2 notes and $325m of USD Tier 2 notes to provide further capital for new business. Given Rothesay's solvency position and, in particular, the size of the SCR, some capital is not currently eligible as Own Funds to meet the SCR. However, as we continue to write new business, solvency capital requirements will increase and all the capital is expected to be fully eligible.

During September 2024 Rothesay repaid £400m of Tier 2 borrowings.

Capital management continued

Some of the new business written in 2023 and 2024 remains outside the Matching Adjustment fund in order to provide flexibility in transitioning assets to our long-term investment strategy. The business is eligible for inclusion in the Matching Adjustment fund and moving the business would improve both Own Funds and the SCR requirement because the Matching Adjustment could then be used in calculating the Technical Provisions. For 2024 these liabilities include an allowance for the volatility adjustment in the discount rate.

The following table provides a breakdown of the SCR, post-diversification benefit, between modules. Insurance risk relates mainly to longevity risk, which reduced over the year due to reinsurance transacted. Market risk is dominated by spread risk, i.e. the risk that credit spreads widen.

Composition of SCR (%)	2024	2023
Market risk	**69**	61
Insurance risk	**17**	27
Operational risk	**7**	6
Counterparty risk	**7**	6

All reforms which resulted from HMT's review of Solvency II have now been incorporated into Rothesay's solvency balance sheet.

An analysis of the change in surplus capital above the SCR is shown in the table below. Surplus above SCR has decreased from £5,457m to £5,366m with key drivers being the capital strain associated with new business written during the year plus the short term impact of not having fully deployed the assets received as premiums. These impacts were offset by surplus capital released from Rothesay's in-force book, primarily due to the run-off of the SCR and risk margin, as well as economic conditions, predominantly the impact of increasing interest rates during 2024, which improved the solvency surplus. Although new investments performance during the year outperformed Rothesay's underwriting assumptions, a significant proportion of the gilts received as part of BPA transactions over 2024 have still to be invested in line with Rothesay's long-term asset strategy. Once this has been completed, Rothesay's solvency surplus is projected to improve.

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	2024 £m	2023 £m
Opening position	**5,457**	4,989
New business (on a fully invested basis)	**(910)**	(667)
Performance of in-force book	**942**	1,462
Non-economic assumption changes	**14**	104
New business acquisition expenses	**(196)**	(162)
Short-term impact of under deployment	**(253)**	9
Operating surplus generation	**(403)**	746
Economic conditions	**634**	(439)
Borrowing cost	**(154)**	(128)
Other non-operating variances	**(73)**	232
Non-operating surplus generation	**407**	(335)
Total surplus generation	**4**	411
Eligible new capital raised less dividends paid	**(95)**	57
Closing surplus	**5,366**	5,457

The analysis of change in surplus for 2023 has been remapped onto the categories which align with the 2024 breakdown.

Risk management

Prudent risk management is at the heart of everything that we do, and we continue to invest in our capabilities to ensure we can meet new challenges as risks evolve.

Peter Shepherd
Chief Risk Officer

Risk management continued

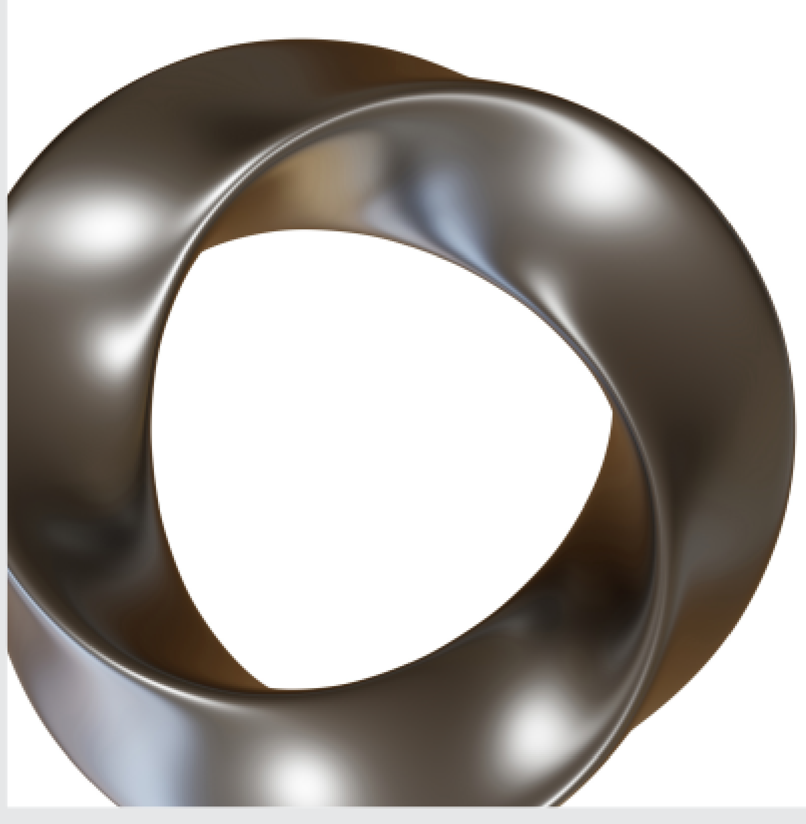
Risk management is at the heart of Rothesay.

How we manage risk

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

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

To do this we have a well-established process of identifying, managing and monitoring risks on a continuous basis. This allows Rothesay to make rapid, informed decisions to manage through adverse conditions, as well as ensuring that we are able to invest appropriately where the risk/reward metrics are favourable.



The risk management framework is designed to ensure that:

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

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

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

Risk management framework

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

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

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

First line of defence

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

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

Second line of defence

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

Third line of defence

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

Risk management continued

Our risk management governance structure

Rothesay Limited

Board Risk Committee	Customer Conduct Committee
Assists the Board in providing leadership, direction and oversight of the Group's risk appetite, tolerance, risk strategy, risk governance and risk management framework and of the risk aspects of major investments and corporate transactions. Its primary function is the ongoing monitoring and control of all financial, operational, insurance and other enterprise-wide risks associated with the activities of Rothesay.	Assists the Board in ensuring that conduct towards customers meets Rothesay's strategic objectives, operates within risk appetite and maintains compliance with applicable laws and regulatory requirements and expectations.

Executive Risk Committee **	Executive Customer Committee *
Responsible for the overall operation of the Risk Management Framework (RMF), ongoing monitoring and control of enterprise-wide risk, including review and approval of all material new investment, hedging or liability transactions.	Responsible for ensuring business culture, strategy and operational processes are effectively controlled and deliver appropriate customer outcomes.

Risk Management Committees

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

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

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

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

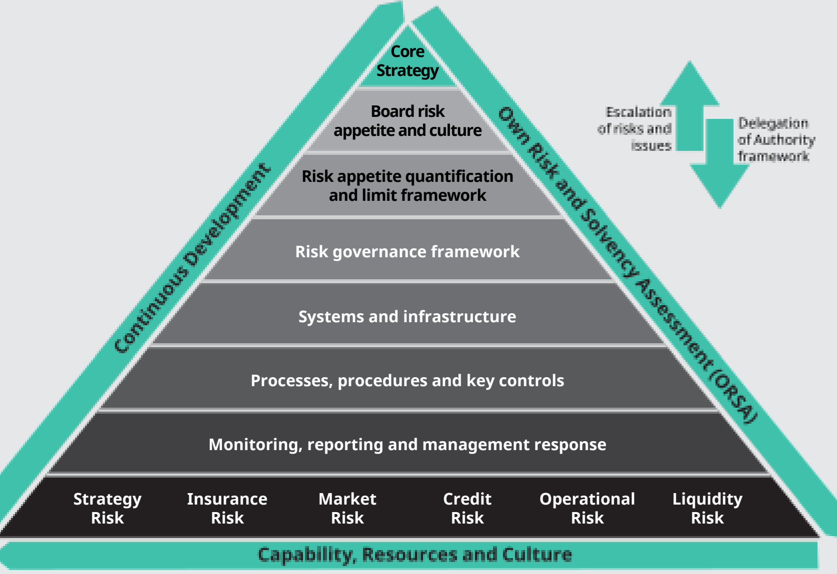
Building on this model, the RMF then adds the detail such that risk management ownership, responsibilities and processes are clear. This both informs and is directed by Rothesay's business strategy. The foundation of the RMF is the clear identification of the risks that Rothesay faces. From this, the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

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

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

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

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



Risk management continued

Board risk appetite and culture

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

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

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

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

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

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

Risk appetite quantification and limit framework

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

Risk governance framework

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

Systems and infrastructure

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

Policies, processes, procedures and key controls

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

Monitoring, reporting and management response

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

Capability, resources and risk culture

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

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

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

Own Risk and Solvency Assessment (ORSA)

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

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

Risk management continued

Principal risks and uncertainties facing Rothesay

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

In the table, strategic priorities **1** to **4** refer to:
1. Financial security
2. Generating long-term value through new business
3. Service excellence
4. Act in the interest of all stakeholders

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

Risk	Mitigation	Strategic priority	Risk direction
Credit risk The risk that a borrower's creditworthiness deteriorates or that the borrower defaults. Our financial and/or capital position could be adversely impacted by downgrades, credit spread widening or defaults.	Rothesay carefully selects the investments it makes in order to generate an adequate risk-adjusted return, has a preference for investments with structured protection such as collateral, and may purchase external credit protection to mitigate the impact of any defaults. Rothesay maintains a highly experienced market-facing team as well as a second-line internal credit risk team who regularly monitor and assess the credit risk associated with its investments.	1,4	→ Global financial conditions are easing but continue to be an area of focus across our borrowers.
Counterparty default risk The risk that a financial counterparty's creditworthiness deteriorates or that a counterparty defaults. Our financial and/or capital position could be adversely impacted by downgrades, credit spread widening or defaults.	Rothesay prefers to work with highly rated and stable counterparties, and to diversify counterparty exposures where appropriate. Derivative and reinsurance contracts are subject to margining requirements to ensure exposures are appropriately collateralised. Rothesay actively monitors counterparties for downgrade risk, and may also purchase credit protection to mitigate specific exposures.	1,4	→ Global financial conditions are easing but continue to be an area of focus across our counterparties.
Insurance risk The risk that demographic experience is different from expected. As the pensions insured by Rothesay are guaranteed, our financial and/or capital position could be adversely impacted if, for example, policyholders live longer than expected.	Rothesay invests in both people and modelling capabilities to analyse its longevity experience and to help assess what could happen in the future. Rothesay aims to reinsure a majority of its longevity exposure. As at 31 December 2024, Rothesay had reinsured 90% of its longevity risk (2023: 87%) **(APM)**.	1,4	→ The future longevity changes remain uncertain, including healthcare pressures, new drugs and long-term effects of COVID-19.

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

Risk management continued

Risk	Mitigation	Strategic priority	Risk direction
Operational risk The risk of operational failure, including project risk, cyber risk and conduct failures. Rothesay is exposed to the risk of operational failure as a result of failure of a strategic business partner or of its own systems and processes. This could lead to reputational damage and increased costs.	Rothesay has no appetite for material operational risk losses, and has a strong control environment to limit these risks as far as possible. The Customer Conduct Committee is responsible for ensuring that policyholders and customers are treated fairly by Rothesay and its strategic business partners. Strategic projects are monitored by Rothesay's Change Management function and relevant committees and are required to operate according to our project management framework. Scenario analysis covering a variety of potential operational risk events is regularly carried out. Rothesay seeks to mitigate cyber risk through robust processes and controls including data protection, penetration testing and employee training, and maintains ISO 27001 and ISO 22301 accreditation. Rothesay has established a new Technology Risk Committee, responsible for the ongoing management of technology risks across Rothesay. Where Rothesay outsources some of its responsibilities, we undertake thorough due diligence in advance of appointment and then have a strong programme of oversight.	3,4	→ Rothesay's operational risk profile has been stable throughout 2024, but cyber risk and third-party risk management continue to be key areas of focus.
Strategic, political and regulatory risk The risk of adverse changes to the regulatory or political environment. Rothesay's strategy, financial or capital position could be adversely affected by the impact of regulatory or political change.	Rothesay continues to actively monitor the political landscape. Where appropriate, Rothesay engages with government or responds to consultations to ensure our interests are protected for the benefit of our stakeholders. Strategic decisions and individual asset underwrites take into account the overall political landscape. Rothesay seeks to have a regular dialogue with regulators in order to ensure compliance, as well as the ability to react quickly to any unanticipated developments. Rothesay seeks to have an open and transparent relationship with regulators at all times. Rothesay is a member of the Association of British Insurers and British Property Federation.	1,2,4	→ There are continued political risks globally, as well as ongoing regulatory change in the UK. There are new governments in the UK and US and we continue to monitor how this may impact Rothesay directly and indirectly.

Changes in Rothesay's risk profile

Geopolitical risks remained elevated in 2024, with a large number of elections leading to uncertainty over the political direction in a significant portion of the world's economies, notably the US and UK elections leading to changes in leadership. Inflationary pressures and global interest rates have also remained high, and although inflation levels have continued to fall, the future path of inflation and interest rates remains uncertain, with material volatility.

Rothesay has continued its strategy of patient investment in a diverse range of assets. During 2024, we have continued to invest in UK lifetime mortgages. We continue to fund Dutch residential mortgages and long-term, fixed rate mortgages in the UK and we further diversified our investment with our first investment into French home loans. Although these types of mortgage are secured on residential property, the risk profiles of lifetime mortgages and fixed-for-term mortgages are quite different.

In 2024 the UK Parliament passed the Leasehold and Freehold Reform Act 2024. Uncertainty remains surrounding the secondary legislation required to implement the Act and any potential future legislative or regulatory changes, and our valuation of assets secured on cash flows from residential freehold properties continues to be informed by scenario analysis based on statements from the Government and wider discussions, including with legal experts and other market participants.

Credit markets remain strong but we remain vigilant and actively monitor our individual and aggregate credit exposures. Where possible, we have continued to switch assets to improve risk-adjusted returns or to reduce the risk of our portfolio. This includes consideration of sustainability-related risks, including climate change. We continue to actively monitor and manage potential downgrade risk across the investment portfolio, particularly as continued sustained inflation and uncertain central bank monetary responses may drive macro and individual counterparty weakness. We continue to have a well-diversified set of high quality counterparties, including our reinsurers, and use a range of risk mitigants to limit counterparty risk including the use of collateral. We have a robust limit framework to limit overall exposures to individual counterparties.

Our market-leading risk management systems, including access to real-time information about our risk positions, have allowed us to respond quickly to market conditions, protecting the strength of our balance sheet and ensuring that we are able to continue to execute our business plans. Our ongoing focus on liquidity risk management means that the Group's liquidity position remained robust throughout 2024.

During February 2024, the PRA released its rules in relation to the Solvency UK Reforms, giving both Rothesay and the wider UK insurance market certainty over regulatory expectations, and we are pleased that progress is being made to adapt the regulatory regime to better suit the UK market.

Cyber risk remains one of, if not the, most significant non-financial risk to UK financial services firms, and this prominence is reflected in the PRA's continuing and increasing focus on the adequacy of firms' preventative and preparatory measures for cyber-attacks. State-sponsored activity, the professionalisation of threat actors, and the ever-increasing sophistication of the tactics and techniques used to compromise systems have continued to be key themes for firms and industry to monitor over 2024. Rothesay has continued to invest in systems and capabilities here.

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

Rothesay has extensive experience in executing large and complex transactions and Rothesay's strong Risk Management Framework ensures that these transactions can be safely delivered in a controlled way. We have continued to invest in our capabilities in order to ensure that we are well-positioned to grow safely and meet the needs of our current and potential future clients and policyholders.

While key risk indicators already exist as part of our risk management framework for our Carbon Intensity targets, the evolving nature of climate change requires us to broaden our risk management toolkit. We believe that scenario analysis, whilst imperfect, will become an important tool in enabling us to review the resilience of our investment portfolio against different hypothetical, yet plausible climate futures. In June 2024 Rothesay published its Sustainability and Climate Reports, aligned with the Task Force on Climate-related Financial Disclosures, which included a new short-term Carbon Intensity reduction target for our total portfolio, a commitment to achieving a 50% reduction by 2030, as a key milestone on its pathway to Net Zero.

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

Risk management continued

Despite the successful operation of our risk management framework in 2024, we are constantly reviewing and improving the entire framework to ensure that it continues to provide the insights to ensure effective risk-based decision-making at all levels of the organisation.

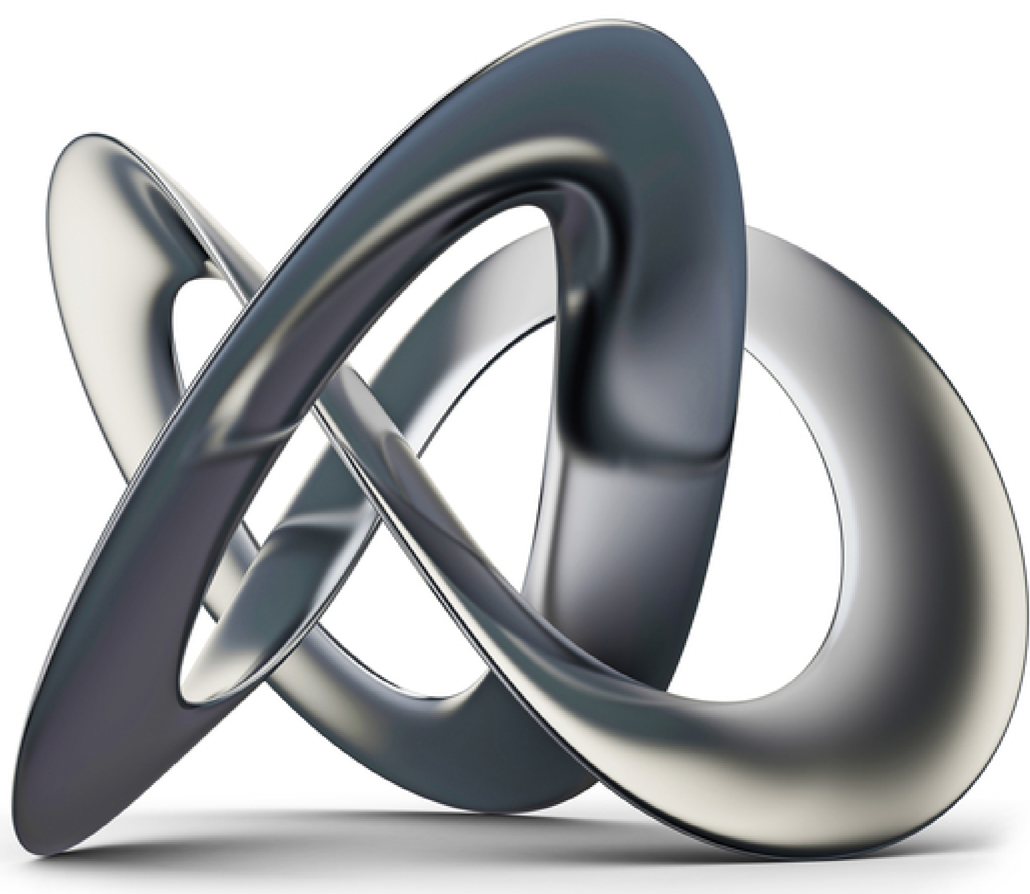
We continue to monitor mortality experience as COVID-19 abates, and while there are a number of positive signs that mortality is returning to normal levels and the health service is starting to recover, there are still some mixed signals for different parts of the population. There are also some potentially positive signs in mortality reduction from the use of weight-loss drugs to improve health. Rothesay monitors changes in current mortality and changes in expectations around future mortality, which could come from medical and pharmacological breakthrough, noting for example the rapid developments in vaccine technology in recent years. These risks are managed through extensive use of longevity reinsurance.

Emerging risks

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

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

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



Viability and going concern

Viability statement

Rothesay's strategy and business model centres on long-term pension security for our policyholders. This focus leads 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 2025, considers risks across a five-year time horizon and therefore it is felt appropriate for the viability assessment to be considered across the same time horizon. Rothesay recognises that the Group has policyholder liabilities which extend beyond the five-year horizon but considers that year-by-year projections beyond the five-year period are likely to be unreliable given everything that might happen in that time. However, given the projected financial position of the Group in five years' time on a range of scenarios, the Board does not consider there to be any going concern or viability issues beyond this timeframe.

How we assess viability

The ORSA includes a number of forward-looking scenarios intended to test the impact of stresses and scenarios that may impact Rothesay's ability to execute the business plan. Scenarios considered include shocks to new business (up and down), liquidity, financial markets (including the global financial crisis) and longevity. Financial market stresses are calibrated to ensure that they capture the potential impact of climate change on our investments. More details on point-in-time stress testing can be found in notes E and F of the financial statements. The ORSA also includes reverse stress testing. 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 period of five years and is prepared on a rolling basis and reviewed and approved by the Board. 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, longevity, investment strategy, revenue generation, expenses and leverage based on Rothesay's existing business and target operating model. In certain scenarios where there is very material new business growth, the plan also assumes that new equity would be provided by our shareholders. In the near term, IFRS pre-tax profits are largely driven by profit emergence on the Rothesay back book. New business then generates CSM which is released into IFRS profits over the longer term.

Our assessment of viability and going concern

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

Report of the Directors

The Directors present their annual report and audited consolidated financial statements for Rothesay Life Plc (the Company, Rothesay or RLP), registered number 06127279, for the year ended 31 December 2024.

Comparative information has been presented for the year ended 31 December 2023.

1. General information

RLP is a registered public limited company incorporated and domiciled in the United Kingdom.

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

2. Results

The consolidated results for RLP and its subsidiaries (the Group or Rothesay) for the year are set out in the consolidated statement of comprehensive income on page 65. All likely future developments and material assessments of the Group's performance is discussed in the Strategic Report. There were no post balance sheet events.

3. Registered office

RLP is a registered public limited company incorporated and domiciled in the United Kingdom. The registered office and principal place of business is The Post Building, 100 Museum Street, London WC1A 1PB.

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

4. Qualifying third-party indemnities

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

5. Dividend

The Board approved the payment of an interim dividend on 9 August 2024 the size of the payment was £361m (2023: £351m), which was paid on 2 October 2024. The Directors have recommended no final ordinary dividend in respect of the year ended 31 December 2024 (2023: £nil).

6. Disclosure of information to auditors

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

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

7. Auditors

The Company has passed elective resolutions in accordance with the Companies Act 1985 to dispense with the holding of Annual General Meetings, the laying of accounts and reports before general meetings and the annual reappointment of auditors. PricewaterhouseCoopers LLP will, accordingly, continue in office as auditors of the Company pursuant to Section 487(2) of the Companies Act 2006.

8. Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and accounts and the financial statements in accordance with applicable law and regulation. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Company financial statements in accordance with UK-adopted international accounting standards. Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that year. In preparing the financial statements, the Directors are required to:

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

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

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

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

9. Internal control and risk management systems

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

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

10. Stakeholder statement and the Wates Corporate Governance Principles

The Company operates under the governance framework of the Rothesay Limited Group and an explanation of how the Rothesay Limited Group Board has considered the matters set out in s.172 is detailed within the ESG section of the Rothesay Limited Group annual report (which does not form part of this report but which can be obtained from the Company Secretary, The Post Building, 100 Museum Street, London WC1A 1PB). The RLP Board of Directors has also considered relevant matters where appropriate.

The Board has decided to follow the Wates Corporate Governance Principles for Large Private Companies. Information can be found on our approach to compliance in the Governance Report of the Rothesay Limited Group annual report.

Report of the Directors continued

11. Streamlined Energy and Carbon Reporting

Rothesay Limited has prepared Streamlined Energy and Carbon Reporting (SECR) for the Rothesay Group. The Rothesay Limited Group SECR can be found in the ESG section of the Rothesay Limited Group annual report (which does not form part of this report but which can be obtained from the Company Secretary, The Post Building, 100 Museum Street, London WC1A 1PB).

12. Changes in Directors

During 2024 and up to the date of this report, the following changes to the Board took place:

- Charles Pickup stood down from the Board on 31 March 2024; and
- Katherine Garner was appointed to the Board as an independent Non-Executive Director on 1 April 2024.

13. Date of authorisation of issue

The financial statements were authorised for issue by the Board of Directors on 14 February 2025.

Rothesay Life Plc Board of Directors

Chairman

Naguib Kheraj

Executive Directors

Tom Pearce

Graham Butcher

Founder Non-Executive Director

Addy Loudiadis

Shareholder Non-Executive Directors

Tim Corbett

Geoff Craddock

Arjun Gupta

Robin Jarratt

Independent Non-Executive Directors

Lisa Arnold

Angela Darlington

Katherine Garner

Ed Giera

Heather Jackson

Terry Miller

Sophie O’Connor

ON BEHALF OF THE BOARD

Tom Pearce
Chief Executive Officer
14 February 2025

Independent auditors' report to the members of Rothesay Life Plc

Report on the audit of the financial statements

Opinion

In our opinion, Rothesay Life Plc's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2024 and of the Group's profit and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and accounts 2024 (the "Annual Report"), which comprise: Consolidated and Company statements of financial position as at 31 December 2024; the Consolidated statement of comprehensive income, the Consolidated and Company cash flow statements, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

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

Basis for opinion

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

Independence

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

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

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

Independent auditors' report to the members of Rothesay Life Plc continued

Our audit approach

Overview

Audit scope

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

Key audit matters

- Valuation of certain financial investments classified as Level 3 under IFRS 13 (Group and Parent)
- Valuation of insurance contract liabilities – Longevity Methodology and Assumptions (Group and Parent)
- Valuation of insurance contract liabilities – Credit Default Risk Methodology and Assumptions (Group and Parent)

Materiality

- Overall Group materiality: £85,000,000 (2023: £78,000,000) based on 1.08% of Adjusted Equity **(APM)**.
- Overall Company materiality: £80,500,000 (2023: £78,000,000) based on 1.01% of Adjusted Equity **(APM)**.
- Performance materiality: £63,750,000 (2023: £59,000,000) (Group) and £60,375,000 (2023: £59,000,000) (Company).

The scope of our audit

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

Key audit matters

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

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

Transition to IFRS 17, specifically the methodology and assumptions used to determine the coverage units for deferred members and the methodology and assumptions used to calculate the CSM for contracts measured using the Fair Value approach, which was a key audit matter last year, is no longer included. This is because these were specific risks related to the first time adoption of IFRS 17 Insurance Contracts which was effective for the previous annual reporting period. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter

Valuation of certain financial investments classified as Level 3 under IFRS 13 (Group)

As disclosed in notes D.1 Financial Investments and D.7 Payables and financial liabilities.

The valuation of certain investments classified as Level 3 is considered inherently complex and uses management judgement to determine the appropriate methodology and selection of assumptions. These assets are typically modelled using unobservable inputs. Furthermore, the balances are material to the financial statements.

We have focused on the following Level 3 financial instruments within the scope of our Key Audit Matter based on magnitude and inherent risk: investments in lifetime mortgages (LTM), illiquid corporate bonds, and loans secured on property which primarily consists of commercial real estate loans, Dutch residential mortgages (DRM), loans secured on ground rent assets, and French home loans acquired during the year.

Lifetime mortgages
Management's LTM portfolio is valued using an internal model which includes significant unobservable inputs impacting expected loan cashflows and the No Negative Equity Guarantee. Determining the valuation methodology to apply, and the calibration of key assumptions at the reporting date are areas requiring expert judgement.

Illiquid corporate bonds and loans secured on property
Illiquid corporate bonds and loans secured on property are predominantly valued using discounted cash flow models. In determining the discount margin used to calculate the fair value of these securities, management will consider a range of information which may include the securities credit rating. Where not externally available, management will assign an internal credit rating. Determining the internal credit ratings and the discount margins require expert judgement.

Certain balances within loans secured on property are valued using complex internal models which contain significant unobservable inputs. Determining the valuation methodology to apply, and the calibration of key assumptions at the reporting date are areas requiring expert judgement.

judgements could be made which could be considered reasonable that would result in a materially different valuation to the assets held.

The procedures to assess the appropriateness of the valuation of certain investments classified as Level 3 included the following:

- Assessed the design and, where applicable, the operating effectiveness of controls, including the monthly price verification process and controls over the accuracy of significant data inputs;

For lifetime mortgages, we;

- Tested inputs into the valuation model to external sources, where possible, and contractual data;
- Engaged our auditors' experts to consider the appropriateness of management's valuation methodology and relevant assumptions, including, but not limited to, property price assumptions, future prepayments, and illiquidity premiums;
- Revalued a sample of LTM portfolios using an independent model, to confirm that management's valuations are in line with the reviewed methodology and assumptions.

For illiquid corporate bonds and loans secured on property, we;

- Tested inputs into the valuation models to external sources, where possible, and contractual data;
- Engaged our auditors' experts to;
- Consider the appropriateness, where relevant, of management's valuation and credit rating methodologies.
- Assess the appropriateness of the year end calibration of key assumptions with reference to market information, historical performance, and expert judgement;
- For a sample of investments, reperform management's valuation to confirm model calculations are appropriate.

Independent auditors' report to the members of Rothesay Life Plc continued

Key audit matter	How our audit addressed the key audit matter
The Leasehold and Freehold Reform Act 2024 was passed in 2024, however there remains legislative risk and valuation uncertainty related to the secondary legislation and the ultimate outcome of future legislative changes. This continued uncertainty impacts both the valuation of the loans secured on ground rent assets, which are included within Loans Secured on Property, as well as the Credit Default assumption associated with these assets (the latter of which is considered in the Key Audit Matter below). We note specifically that alternative judgements could be made which could be considered reasonable that would result in a materially different valuation to the assets held.	• Assessed the appropriateness of the expert judgements made in determining the impact of secondary legislation of the Leasehold and Freehold Reform bill on the valuation of the loans secured on ground rent assets, including ensuring that sufficient consideration was given to a range of likely outcomes of the secondary legislation and potential subsequent changes in legislation; and • Considered the appropriateness of the associated disclosure given the inherent uncertainty remaining. Based on the procedures performed and evidence obtained, we consider the valuation of Level 3 financial investments to be appropriate.
Valuation of insurance contract liabilities – Longevity Methodology and Assumptions (Group)	
As disclosed in note E - Insurance contracts and reinsurance. Annuitant mortality and specifically longevity improvements are inherently uncertain and continue to be an area of judgement. The potential long-term impact of the COVID-19 pandemic on longevity also involves significant expert judgement. Management utilises the Group's own historic experience and available market data in the calculation of the appropriate assumptions. For the rate of mortality improvement, this includes the latest model and datasets from the Continuous Mortality Investigation (CMI) bureau, CMI 2023. The IFRS 17 Risk Adjustment for longevity is calibrated using reinsurance pricing to determine stressed mortality assumptions to reflect the entity's required compensation for the risk. We consider the longevity methodology and assumptions underpinning the insurance contract liabilities to be a key audit matter, especially given the mono-line nature of the Group's insurance business.	The procedures to assess the appropriateness of the longevity assumptions used in the valuation of insurance contract liabilities included the following: • Tested the reasonableness of the base mortality methodology and assumptions, including for new liability trades, with reference to relevant rules, actuarial guidance and by applying our industry knowledge and experience; • Tested the controls in place around the performance of longevity experience analysis studies, approval of the proposed methodology and assumptions; and their implementation within actuarial models; • Assessed the appropriateness of expert judgements used in the development of the mortality improvement methodology and assumptions by applying our industry knowledge and experience. This includes the selection and parameterisation of the CMI model including the choice of the smoothing parameter and long term improvement rate, as well as any expert judgements used in relation to the potential future impact of the current economic environment and the potential long term impacts the COVID-19 pandemic have had on longevity; • Assessed the appropriateness of expert judgements used in the IFRS 17 Risk Adjustment calibration for longevity risk by applying our industry knowledge and experience; • Compared the longevity methodology and assumptions selected by the Group against those used by their peers using our annual survey of the market; and • Assessed the disclosure of the longevity methodology and assumptions and the associated financial impact on the liabilities arising from changes in these over 2024. Based on the audit procedures performed and evidence obtained, we consider the longevity methodology and assumptions used in the valuation of Insurance contract liabilities to be appropriate.

Key audit matter	How our audit addressed the key audit matter

Valuation of insurance contract liabilities – Credit Default Risk Methodology and Assumptions (Group)

As disclosed in note E - Insurance contracts and reinsurance.

The Group has significant holdings in complex and illiquid investments in addition to liquid assets. The credit default risk assumption determines a deduction from the yield on the assets assumed to back the liabilities; this asset yield is used to determine the top-down discount rate used to value the liabilities. The credit default risk for these illiquid assets is judgemental and is generally lower than the corresponding credit default risk deduction on a typical unsecured credit portfolio. The methodology used to determine the credit default risk for liquid assets is more complex than others in the market.

The deduction from the asset yield reflects the Group's view of the value of the security held for the asset class which in itself is an area of judgement. The challenging economic environment has also increased the uncertainty in relation to the credit default assumptions made.

For 2024 year end, the calibrations of the credit default assumptions for both the liquid and illiquid asset classes have been assessed and updated where necessary to reflect the most up to date information available. This includes loans secured on ground rent assets and the potential impact of the current Leasehold reform environment.

The procedures to assess the appropriateness of the credit default risk methodology and assumptions used in the valuation of the insurance contract liabilities included the following:

- Assessed the methodologies used to derive the assumptions for both liquid and illiquid asset classes with reference to relevant rules and actuarial guidance, by applying our industry knowledge and experience and by assessing the consistency of the assumptions with those used for the asset valuations where appropriate;
- Tested controls performed by management over the approval and implementation of credit default methodology and assumptions as well as controls over monitoring and updating the IFRS 17 discount rate to reflect changes in credit default assumptions;
- Validated significant assumptions used by management against market observable data (to the extent available and relevant) and our experience of market practices;
- Assessed the reasonableness of the expert judgements made in determining the impact of the current regulatory environment surrounding leasehold reform on the credit default assumptions for loans secured on ground rent assets;
- Compared the assumptions selected against those adopted by peers using our annual survey of the market (to the extent available);
- Tested the analysis of the movement in credit default risk assumption prepared by management for each asset class based on current market data and developments in the asset portfolio; and
- Assessed the disclosure of the credit default risk assumptions and the associated financial impact on the liabilities from changes in these assumptions over 2024.

Based on the procedures performed and evidence obtained, we consider the methodology and assumptions for Credit Default used in the valuation of Insurance contract liabilities to be appropriate.

Independent auditors' report to the members of Rothesay Life Plc continued

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

Decisions regarding scoping require professional judgement based on quantitative and qualitative considerations, including the size and nature of business activities in each operating entity.

The Group is predominantly based in the United Kingdom and its core business is the pension scheme Bulk Purchase Annuity market.

The Group consists of the parent Company, Rothesay Life Plc, and a number of subsidiary companies, of the most significant component is the Company, which conducts all of the insurance business of the Group.

We have determined Rothesay Life Plc Company to be subject to a full scope audit. In addition, we perform a limited scope audit covering specific financial statement line items for a further two components. For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement.

Our scoping resulted in 93% coverage of consolidated total assets, 93% coverage of consolidated total liabilities and 99% coverage of consolidated profit before tax.

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

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

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

	Financial statements – Group	Financial statements – Company
Overall materiality	£85,000,000 (2023: £78,000,000)	£80,500,000 (2023: £78,000,000)
How we determined it	1.08% of Adjusted Equity **(APM)**	1.01% of Adjusted Equity **(APM)**
Rationale for benchmark applied	We determine a materiality that reflects the context of the business performance and benchmarks which represent key performance indicators considered important to the users of the financial statements. Adjusted Equity **(APM)** is equivalent to total equity plus CSM net of tax, less the value of sterling-denominated RT1 debt. We consider Adjusted Equity **(APM)** to be the most appropriate benchmark as it represents a reflection of value that aligns with the long-term value of the Group. We have presented the materiality as a percentage of Adjusted Equity **(APM)** and considered alternative benchmarks including: Total assets; Insurance revenue and Insurance service result; and Profit before tax, in determining the appropriate materiality to be applied.	We determine a materiality value for the Company using the same rationale as for the benchmark applied to the Group financial statements.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The materiality allocated to each component was £80,500,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2023: 75%) of overall materiality, amounting to £63,750,000 (2023: £59,000,000) for the Group financial statements and £60,375,000 (2023: £59,000,000) for the Company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £4,025,000 (Group audit) (2023: £3,900,000) and £4,025,000 (Company audit) (2023: £3,900,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

Independent auditors' report to the members of Rothesay Life Plc continued

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 December 2024 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries and management bias in accounting estimates, including the valuation of insurance contract liabilities and the valuation of investments classified as Level 3 under IFRS 13. Audit procedures performed by the engagement team included:

- Discussions with the Board, management, Internal Audit, senior management involved in the Risk and Compliance functions and the Group's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of any matters reported on the Group's whistleblowing register and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Risk Committee and attending all Audit Committees;
- Reviewing data regarding policyholder complaints, the Group's register of litigation and claims, Internal Audit reports, and Compliance reports in so far as they related to non-compliance with laws and regulations and fraud;

Independent auditors' report to the members of Rothesay Life Plc continued

- Assessing whether there is any indication of management bias in the key accounting estimates including the valuation of insurance contract liabilities and the valuation of certain investments classified as Level 3 under IFRS 13;
- Determining a fraud risk criteria to identify potential inappropriate journals and obtaining appropriate audit evidence as required; and
- Designing audit procedures that incorporated unpredictability around the nature, timing or extent of our testing to material and immaterial financial statement line items.

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements in accordance with ISAs (UK) is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group and Company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the members on 26 February 2007 to audit the financial statements for the year ended 30 November 2007 and subsequent financial periods. The period of total uninterrupted engagement is 18 years, covering the years ended 30 November 2007 to 31 December 2024.

Thomas Ferguson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
14 February 2025

Section **two**

Financial Statements

In this section

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The financial statements set out the consolidated results for Rothesay Life Plc and its subsidiaries for the year ended 31 December 2024.

Consolidated statement of comprehensive income

For the year ended 31 December 2024

	Notes	2024 £m	2023 £m
Insurance revenue	B.1	**4,234**	3,127
Insurance service expense	B.1	**(3,475)**	(2,658)
Net expense from reinsurance contracts held	B.1	**(63)**	(49)
Insurance service result		**696**	420
Total investment (loss)/return	B.2	**(1,696)**	5,103
Finance income/(expense) for insurance contracts issued	B.2	**2,031**	(4,380)
Finance (expense)/income for reinsurance contracts held	B.2	**(191)**	391
Net insurance finance result		**1,840**	(3,989)
Net insurance and investment result		**840**	1,534
Operating expenses	B.3	**(81)**	(116)
Finance costs	B.4	**(638)**	(505)
Profit before tax		**121**	913
Income tax expense	B.8	**(27)**	(223)
Profit for the year		**94**	690

	Note	2024 £m	2023 £m
Profit for the financial year		**94**	690
Other comprehensive income/(loss):			
Items that are or may be reclassified to profit or loss		**—**	—
Cash flow hedges:			
Fair value gains/(losses) during the year	C.3	**4**	(3)
Total comprehensive income for the year		**98**	687

All income and expenses are related to continuing operations.

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

Consolidated statement of financial position

As at 31 December 2024

	Notes	2024 £m	2023 £m
Assets			
Property, plant and equipment	I.1	**47**	27
Lease – right-of-use assets	I.6	**48**	53
Financial investments	D.1	**117,428**	98,968
Deferred tax asset	G.1	**569**	637
Reinsurance contract assets	E.2	**302**	216
Accrued interest and prepayments	D.3	**1,062**	870
Receivables	D.4	**3,946**	2,106
Cash and cash equivalents	D.5	**210**	233
Assets held for sale	D.6	**3**	127
Total assets		**123,615**	103,237
Equity and liabilities			
Equity			
Share capital	C.1	**529**	510
Share premium	C.3	**155**	—
Tier 1 notes	C.2	**793**	793
Hedging reserve	C.3	**5**	1
Profit and loss reserve	C.3	**2,834**	3,137
Total equity		**4,316**	4,441
Liabilities			
Insurance contract liabilities	E.1	**64,222**	54,630
Reinsurance contract liabilities	E.2	**223**	461
Payables and financial investment liabilities	D.7	**51,976**	41,233
Leasehold liabilities	I.6	**60**	68
Borrowings	D.8	**2,616**	2,248
Accruals	D.9	**202**	156
Total liabilities		**119,299**	98,796
Total equity and liabilities		**123,615**	103,237

Notes A–I form an integral part of these financial statements. The financial statements on pages 65 to 154 were approved by the Board of Directors on 14 February 2025 and signed on its behalf by:

Tom Pearce
Chief Executive Officer
14 February 2025
Company number 06127279

Consolidated statement of changes in equity

For the year ended 31 December 2024

	Notes	Share capital £m	Share premium £m	Tier 1 notes £m	Hedging reserve £m	Profit and loss reserve £m	Total equity £m
As at 1 January 2024		**510**	**—**	**793**	**1**	**3,137**	**4,441**
Share issuance	C.1,C.3	**19**	**155**	**—**	**—**	**—**	**174**
Dividends paid	C.4	**—**	**—**	**—**	**—**	**(361)**	**(361)**
Effective portion of change in fair value of cash flow hedges	C.3	**—**	**—**	**—**	**4**	**—**	**4**
Tier 1 note coupon	C.2, C.3	**—**	**—**	**—**	**—**	**(47)**	**(47)**
Tier 1 coupon tax relief	C.2, C.3	**—**	**—**	**—**	**—**	**11**	**11**
Profit for the financial year	C.3	**—**	**—**	**—**	**—**	**94**	**94**
As at 31 December 2024		**529**	**155**	**793**	**5**	**2,834**	**4,316**

For the year ended 31 December 2023

	Notes	Share capital £m	Tier 1 notes £m	Hedging reserve £m	Profit and loss reserve £m	Total equity £m
As at 1 January 2023		510	793	4	2,835	4,142
Dividends paid	C.4	—	—	—	(351)	(351)
Effective portion of change in fair value of cash flow hedges	C.3	—	—	(3)	—	(3)
Tier 1 note coupon	C.2, C.3	—	—	—	(47)	(47)
Tier 1 coupon tax relief	C.2, C.3	—	—	—	10	10
Profit for the financial year	C.3	—	—	—	690	690
As at 31 December 2023		510	793	1	3,137	4,441

Consolidated cash flow statement

For the year ended 31 December 2024

	Notes	2024 £m	2023 £m
Cash flows from operating activities			
Profit for the year		**94**	690
Adjustments for non-cash movements in net profit for the year			
FX on USD borrowings		**6**	(19)
Property, plant and equipment depreciation	I.1	**2**	2
Lease – right-of-use asset depreciation	I.6	**5**	4
Amortisation of debt costs	B.4	**8**	4
Financing charge on leasehold liabilities	I.6	**3**	2
Interest income	B.2	**(3,089)**	(2,334)
Interest expense	B.4	**627**	499
Income tax expense	B.8	**(39)**	157
Hedging reserve	C.3	**4**	(3)
Net (increase)/decrease in operational assets			
Financial investments	D.1	**(18,460)**	(8,039)
Assets held for sale	D.6	**124**	(127)
Deferred tax asset	G.1	**68**	65
Reinsurance contract assets	E.2	**(86)**	(162)
Receivables	D.4	**(1,758)**	81
Prepayments	D.3	**(23)**	55
Net increase/(decrease) in operational liabilities			
Insurance contract liabilities	E.1	**9,592**	13,659
Reinsurance contract liabilities	E.2	**(238)**	(388)
Financial investment liabilities	D.7	**10,652**	(5,775)
Other payables	D.7	**196**	(245)
Accrued expenses	D.9	**7**	7
Cash flows used in operating activities		**(2,305)**	(1,867)
Interest paid		**(589)**	(445)
Interest received		**2,918**	2,216
Taxes paid		**(136)**	—
Net cash flows used in operating activities		**(112)**	(96)
Cash flows from financing activities			
Proceeds from issuance of ordinary share capital (including share premium)	C.1	**174**	—
Interest payments on Tier 1 notes	C.3	**(47)**	(47)
Cash outflows for leases	I.6	**(9)**	(3)
Dividends paid	C.4	**(361)**	(351)
Repayment of borrowings	D.8	**(400)**	—
Proceeds from issuance of debt (net of issuance costs)	D.8	**754**	498
Net cash flows generated from financing activities		**111**	97
Net cash outflows used in investing activities			
Acquisitions of property, plant and equipment	I.1	**(22)**	(11)
Net cash outflows used in investing activities		**(22)**	(11)
Net decrease in cash and cash equivalents		**(23)**	(10)
Cash and cash equivalents at 1 January	D.5	**233**	243
Cash and cash equivalents at 31 December	D.5	**210**	233

Company statement of financial position

As at 31 December 2024

	Notes	2024 £m	2023 £m
Assets			
Investment in subsidiaries	H.2	**13**	13
Property, plant and equipment	I.1	**47**	27
Lease – right-of-use asset	I.6	**48**	53
Financial investments	D.1	**116,569**	98,786
Deferred tax asset	G.1	**569**	637
Reinsurance contract assets	E.2	**302**	216
Accrued interest and prepayments	D.3	**1,060**	869
Receivables	D.4	**4,257**	2,330
Cash and cash equivalents	D.5	**191**	183
Assets held for sale	D.6	**3**	127
Total assets		**123,059**	103,241
Equity and liabilities			
Equity			
Share capital	C.1	**529**	510
Share premium	C.3	**155**	—
Tier 1 notes	C.2	**793**	793
Hedging reserve	C.3	**5**	1
Profit and loss reserve	C.3	**2,834**	3,137
Total equity		**4,316**	4,441
Liabilities			
Insurance contract liabilities	E.1	**64,222**	54,630
Reinsurance contract liabilities	E.2	**223**	461
Payables and financial liabilities	D.7	**51,420**	41,237
Leasehold liabilities	I.6	**60**	68
Borrowings	D.8	**2,616**	2,248
Accruals	D.9	**202**	156
Total liabilities		**118,743**	98,800
Total equity and liabilities		**123,059**	103,241

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

The profit for the financial year of the Company was £94m (2023: £690m). As permitted by Section 408 of the Companies Act 2006, the Company's statement of comprehensive income has not been included in these financial statements.

The financial statements on pages 65 to 154 were approved by the Board of Directors on 14 February 2025 and signed on its behalf by:

Tom Pearce
Chief Executive Officer
14 February 2025
Company number 06127279

Company statement of changes in equity

For the year ended 31 December 2024

For the year ended 31 December 2024

	Notes	Share capital £m	Share premium £m	Tier 1 notes £m	Hedging reserve £m	Profit and loss reserve £m	Total equity £m
1 January 2024		**510**	**—**	**793**	**1**	**3,137**	**4,441**
Share issuance	C.1, C.3	**19**	**155**	**—**	**—**	**—**	**174**
Dividends paid	C.4	**—**	**—**	**—**	**—**	**(361)**	**(361)**
Effective portion of change in fair value of cash flow hedges	C.3	**—**	**—**	**—**	**4**	**—**	**4**
Tier 1 note coupon	C.2, C.3	**—**	**—**	**—**	**—**	**(47)**	**(47)**
Tier 1 coupon tax relief	C.2, C.3	**—**	**—**	**—**	**—**	**11**	**11**
Profit for the financial year	C.3	**—**	**—**	**—**	**—**	**94**	**94**
As at 31 December 2024		**529**	**155**	**793**	**5**	**2,834**	**4,316**

For the year ended 31 December 2023

	Notes	Share capital £m	Tier 1 notes £m	Hedging reserve £m	Profit and loss reserve £m	Total equity £m
1 January 2023		510	793	4	2,835	4,142
Dividends paid	C.4	—	—	—	(351)	(351)
Effective portion of change in fair value of cash flow hedges	C.3	—	—	(3)	—	(3)
Tier 1 note coupon	C.2, C.3	—	—	—	(47)	(47)
Tier 1 coupon tax relief	C.2, C.3	—	—	—	10	10
Profit for the financial year	C.3	—	—	—	690	690
As at 31 December 2023		510	793	1	3,137	4,441

Company cash flow statement

For the year ended 31 December 2024

	Notes	2024 £m	2023 £m
Cash flows from operating activities			
Profit for the financial year		**94**	690
Adjustments for non-cash movements in net profit for the year			
FX on USD borrowings		**6**	(19)
Property, plant and equipment depreciation	I.1	**2**	2
Lease – right-of-use assets depreciation	I.6	**5**	4
Amortisation of debt costs	B.4	**8**	4
Financing charge on leasehold liabilities	I.6	**3**	2
Interest income	B.2	**(3,086)**	(2,334)
Interest expense	B.4	**627**	499
Income tax expense	B.8	**(39)**	157
Hedging reserve	C.3	**4**	(3)
Net (increase)/decrease in operational assets			
Financial investments	D.1	**(17,784)**	(8,066)
Assets held for sale	D.6	**124**	(127)
Deferred tax asset	G.1	**68**	402
Reinsurance contract assets	E.2	**(86)**	(162)
Receivables	D.4	**(1,845)**	101
Prepayments	D.3	**(21)**	55
Net increase/(decrease) in operational liabilities			
Insurance contract liabilities	E.1	**9,592**	13,659
Reinsurance contract liabilities	E.2	**(238)**	(388)
Financial investment liabilities	D.7	**10,096**	(5,775)
Other payables	D.7	**192**	(577)
Accruals	D.9	**7**	7
Net cash flows used in operating activities		**(2,271)**	(1,869)
Interest paid		**(589)**	(445)
Interest received		**2,915**	2,216
Tax paid		**(136)**	—
Cash flows used in operating activities		**(81)**	(98)
Cash flows from financing activities			
Proceeds from issuance of ordinary share capital (including share premium)	C.1	**174**	—
Interest payment on Tier 1 note	C.3	**(47)**	(47)
Dividends paid	C.4	**(361)**	(351)
Cash outflow for leases	I.6	**(9)**	(3)
Repayment of borrowings	D.8	**(400)**	—
Proceeds from issuance of debt (net of issuance costs)	D.8	**754**	498
Net cash flows generated from financing activities		**111**	97
Net cash outflows from investing activities			
Acquisition of property, plant and equipment	I.1	**(22)**	(11)
Net cash outflows from investing activities		**(22)**	(11)
Net increase/(decrease) in cash and cash equivalents		**8**	(12)
Cash and cash equivalents at 1 January	D.5	**183**	195
Cash and cash equivalents at 31 December	D.5	**191**	183

Notes to the financial statements

Note A – Material accounting policy information

A.1 Basis of preparation and consolidation

The consolidated financial statements of Rothesay and those of the Company have been prepared and approved by the Directors in conformity with the requirements of the Companies Act 2006 and UK-adopted International Accounting Standards. The accounting policies have been applied consistently. The financial statements have been prepared on a going concern basis. The financial statements have been prepared on the historical cost basis, except for the revaluation of investment properties measured at fair value and finance leases measured at fair value less cost to sell that are held for sale (see note D.6) and financial assets and financial liabilities that are measured at fair values (see notes D.1 and D.7) at the end of each reporting period.

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

The consolidated and separate financial statements of the Company are presented in sterling (£) rounded to the nearest million (£m) except where otherwise stated. The separate Company statement of financial position is presented on page 69.

An analysis regarding recovery or settlement more than 12 months after the year end is presented in the notes.

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

The consolidated financial statements comprise the financial statements of the Group as at 31 December each year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Rothesay obtains control, and continue to be consolidated until the date when such control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date Rothesay gains control until the date Rothesay ceases to control the subsidiary. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. The notes to the financial statements reflect the Rothesay Group position unless otherwise stated.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions and dividends, are eliminated in full.

Control is achieved when Rothesay is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, Rothesay controls an investee if and only if Rothesay has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

Rothesay reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Note A – Material accounting policy information (continued)

A.1 Basis of preparation and consolidation (continued)

All of Rothesay's business risks and returns are within one business segment (i.e. long-term insurance annuities business). This includes the premiums generated on inwards reinsurance contracts; please refer to note B for Rothesay's total insurance revenue. Rothesay's insurance operations are within the United Kingdom.

During the preparation of the consolidated financial statements, Rothesay selects accounting policies and makes estimates and assumptions that impact on the items reported and their presentation. The Audit Committee reviews the reasonableness of these judgements and assumptions as well as the appropriateness of the accounting policies applied. Judgements are decisions which management has made in the process of applying Rothesay's accounting policies. Key considerations of the standard include:

- assessment of the significance of insurance risk transferred to Rothesay in determining whether a contract should be accounted for as an insurance or investment contract (see note A.2);
- assessment of the level of aggregation of insurance and reinsurance contracts which includes identifying portfolios of contracts and determining groups of contracts that are onerous on initial recognition and those that have no significant possibility of becoming onerous subsequently (see note E);
- the method used to measure the risk adjustment for non-financial risk (see note E.7(e));
- the method used to measure the coverage units for both immediate and deferred annuities provided under insurance contracts (see note E.6); and
- the assessment of whether Rothesay controls underlying entities and investments (see note H.1).

Estimates are based on evidence available at the accounting date and opinions provided by subject matter experts. Actual results may vary from the estimates provided. As new facts become available estimates will be updated. Items considered particularly susceptible to changes in estimates are noted below:

- Fair value of financial investments where quoted market prices are not available (see note D.1).
- Measurement of (re)insurance contract liabilities (see note E).

In accordance with IAS 1 and published FRC guidance, within each of the relevant notes Rothesay has included the following information:

- the assumptions made and the uncertainties around these;
- how sensitive the assets and liabilities are to these assumptions;
- expected resolution of the uncertainty and the range of possible outcomes for the financial year ending 31 December 2025; and
- explanation of any changes made to past assumptions if the uncertainty is unresolved.

A.2 Contract classification

Contracts under which Rothesay accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder are classified as insurance contracts. Rothesay has classified its policyholder contracts as insurance contracts based on a contract-by-contract assessment of substantive rights and obligations. Rothesay uses judgement to assess whether a contract transfers significant insurance risk and whether the transferred insurance risk is significant by considering scenarios with commercial substance in which Rothesay has the possibility of a significant loss. For Rothesay, the most material such risk is longevity risk, i.e. the risk that the policyholder lives for longer than expected. Unless otherwise stated, insurance contracts issued also includes reinsurance contracts issued by Rothesay.

Contracts that do not transfer significant insurance risk are investment contracts.

Notes to the financial statements continued

Note A – Material accounting policy information (continued)

A.3 Foreign currency transactions

Transactions denominated in foreign currencies are translated into sterling at rates of exchange ruling on the date the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the financial statement date. Gains and losses on exchange are recognised in investment returns and operating expenses. The results and financial position of all Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate;
- income, expenses and cash flows denominated in foreign currency are translated at average exchange rates; and
- all resulting exchange differences are recognised through the statement of consolidated comprehensive income and taken to the currency transaction reserve within equity.

A.4 Accounting policies and changes in accounting policies

Accounting policies have been consistently applied in these consolidated financial statements. Where accounting policies can be directly attributed to a specific note, the policy is presented in that note. The following amendments to existing standards are effective on 1 January 2024:

Amendments to IAS 1, Presentation of Financial Statements

These amendments to classification of liabilities as current or non-current, and non-current liabilities with covenants clarify that the classification of liabilities as current or non-current is based solely on a Company's right to defer settlement for at least 12 months at the reporting date. The right needs to exist at the reporting date and must have substance. The amendments improve the information an entity provides related to liabilities subject to these conditions. These amendments have no impact on Rothesay.

Amendments to IFRS 16, Leases

These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all of the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted. These amendments have no impact on Rothesay.

Amendment to IAS 7, Statement of Cash Flows and IFRS 7, Financial Instruments: Disclosures

These amendments require an entity to disclose qualitative and quantitative information about its supplier finance programmes and their effects on a company's liabilities, cash flows and exposure to liquidity risk. These amendments have no impact on Rothesay.

Note A – Material accounting policy information (continued)

A.4 Accounting policies and changes in accounting policies (continued)

New amendments to existing standards that are not yet effective during the year:

Amendments to IAS 21, Foreign Exchange

The amendments impact an entity when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. These amendments are effective for reporting periods beginning on or after 1 January 2025. These amendments are not expected to have any impact on Rothesay.

Amendments to IFRS 9, Financial Instruments, and IFRS 7, Financial Instruments: Disclosures

The amendments to the classification and measurement of financial instruments address matters identified during the post-implementation review of the classification and measurement requirements of IFRS 9. The amendments include: (i) clarifying the requirements for the timing of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system; (ii) further guidance for assessing whether a financial asset meets the solely payments of principal and interest criterion; (iii) add new disclosures for certain instruments with contractual terms that can change cash flows (such as some instruments with features linked to the achievement of environment, social and governance (ESG) targets); and (iv) make updates to the disclosures for equity instruments designated at Fair Value through Other Comprehensive Income. The amendments are effective for reporting periods beginning on or after 1 January 2026. These amendments are not expected to have any impact on Rothesay.

New accounting standards that are not yet effective during the year:

IFRS 18, Presentation and Disclosure in Financial Statements

This is the new standard on presentation and disclosure in financial statements, with a focus on updates to the statement of profit or loss and related disclosures. The key new concepts introduced include: (i) changes in the structure of the statement of profit or loss; (ii) required disclosures in the financial statements for management performance measures; and (iii) enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general. This new accounting standard will be effective for reporting periods beginning on or after 1 January 2027. The adoption of this new accounting standard is expected to impact the presentation of the statement of income of Rothesay and additional disclosures in relation to management performance measures.

IFRS 19, Subsidiaries without Public Accountability: Disclosures

This new standard provides the option for an eligible subsidiary to apply the requirements in other IFRS Accounting Standards except for the disclosure requirements and instead applies the reduced disclosure requirements in IFRS 19. IFRS 19's reduced disclosure requirements balance the information needs of the users of eligible subsidiaries' financial statements with cost savings for preparers. IFRS 19 is a voluntary standard for eligible subsidiaries and will be effective for reporting periods beginning on or after 1 January 2027. This new accounting standard is not expected to have any impact on Rothesay.

Notes to the financial statements continued

Note B – Income statement notes

Insurance revenue
Insurance revenue is recognised as Rothesay provides services under groups of insurance contracts. Such contracts include reinsurance inwards, i.e. where Rothesay has reinsured a third-party insurer. The insurance revenue relating to services provided for each year represents the total of the changes in the liability for remaining coverage that relate to services for which Rothesay expects to receive consideration, and comprises the following items:
- *A release of the CSM, measured based on coverage units released during the year (see note E for further details).*
- *Changes in the risk adjustment for non-financial risk relating to current services.*
- *Claims and other insurance service expenses incurred in the year, generally measured at the amounts expected at the beginning of the year.*
- *Other amounts, including experience adjustments for premium receipts for current or past services.*

In addition, Rothesay allocates a portion of premiums that relate to recovering insurance acquisition cash flows to each period in a systematic way based on the passage of time. Rothesay recognises the allocated amount as insurance revenue and an equal amount as insurance service expense.

The amount of CSM recognised in the profit or loss in the year represents the coverage units released based on the quantity of services provided to the policyholder during the year. The number of coverage units is a quantification of services provided under the contracts in the group. Services provided under insurance contracts include insurance coverage and investment services for generating an investment return for policyholders. The quantity of benefits provided as part of the investment return service includes both the value generated to the policyholder by investing deferred policy premiums, and the value that Rothesay stands ready to pay policyholders upon them exercising their options before the in-payment period, such as the policyholder's ability to take a transfer value or to commute part of the value of their pension in lieu of an annuity.

Insurance service expense
Insurance service expenses arising from insurance contracts are recognised in profit or loss as they are incurred. The insurance service expense includes:
- *Incurred claims and other insurance service expenses.*
- *Amortisation of insurance acquisition cash flows. This is equal to the amount of insurance revenue recognised in the year that relates to recovering insurance acquisition cash flows.*
- *Adjustments to the liabilities for incurred claims that do not arise from the effects of the time value of money, financial risk and changes therein.*

Payments relating to investment components and premium refunds are excluded from insurance service revenue and insurance service expense (see note E.1).

Net expense from reinsurance contracts held
Reinsurance expenses are recognised similarly to insurance revenue. Net expenses from reinsurance contracts comprise an allocation of reinsurance premiums paid less amounts recovered from reinsurers. Rothesay recognises an allocation of reinsurance premiums paid in profit or loss as it receives services under groups of reinsurance contracts. The allocation of reinsurance premiums paid relating to services received for each year represents the total of the changes in the asset for remaining coverage that relate to services for which Rothesay expects to pay consideration.

Allocation of reinsurance premiums paid include:
- *Expected recovery for insurance service expenses incurred during the year.*
- *Change in the risk adjustment for non-financial risk.*
- *Net cost/gain recognised in profit or loss for the services received.*
- *Amounts relating to recovery in reinsurance acquisition cash flows.*
- *Other amounts, including reinsurance premiums experience adjustment for current or past service.*

Amounts recoverable from reinsurers include:
- *Amounts recoverable for claims and other expenses incurred during the year.*
- *Changes in amounts recoverable arising from changes in liability for incurred claims.*
- *Amounts relating to recovery in reinsurance acquisition cash flows.*

Note B – Income statement notes (continued)

B.1 Insurance service results

Analysis of the total insurance revenue, insurance service expenses and net expense from reinsurance contracts held recognised during the year is shown in the following table. Note that Rothesay has not written any onerous insurance contracts nor have any insurance contracts that become onerous during the year. Consequently, Rothesay has not recognised any losses from onerous insurance contracts in the profit or loss.

	2024 £m	2023 £m
Insurance revenue		
Amounts relating to changes in liabilities for remaining coverage:		
– Expected insurance service expense incurred during the year	**3,449**	2,648
– Change in the risk adjustment for non-financial risk	**11**	8
– CSM recognised in profit or loss for the services provided during the year	**725**	442
Allocation of the portion of premiums that relate to the recovery of insurance acquisition cash flows	**49**	29
Total insurance revenue	**4,234**	3,127
Insurance service expense		
Incurred claims and other incurred insurance service expenses	**(3,426)**	(2,629)
Amortisation of insurance acquisition cash flows	**(49)**	(29)
Total insurance service expense	**(3,475)**	(2,658)
Insurance service result before reinsurance contracts held	**759**	469
Net expense from reinsurance contracts held		
Amounts relating to changes in liabilities for remaining coverage:		
– Expected recovery for insurance service expenses incurred during the year	**(2,546)**	(2,132)
– Net cost recognised in profit or loss for the services received	**(62)**	(43)
– Amounts relating to recovery in insurance acquisition cash flows	**5**	2
Total allocation of reinsurance premiums paid	**(2,603)**	(2,173)
Amounts recoverable for claims and other expenses incurred during the year	**2,545**	2,126
Amounts relating to recovery in insurance acquisition cash flows	**(5)**	(2)
Amounts recoverable from reinsurers	**2,540**	2,124
Total net expense from reinsurance contracts held	**(63)**	(49)
Total insurance service result	**696**	420

Notes to the financial statements continued

Note B – Income statement notes (continued)

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

This note provides an analysis of the total investment income and net insurance finance expense recognised in profit or loss during the year. This includes amounts recognised under IFRS 9 and the net insurance finance expense from insurance contracts issued under IFRS 17. Insurance finance income and expenses comprise changes in the carrying amounts of groups of insurance and reinsurance contracts arising from the effects of the time value of money, financial risk and changes therein. Net insurance finance expense includes:

- *Interest accreted to (re)insurance contracts using current financial assumptions on fulfilment cash flows.*
- *Interest accreted to (re)insurance contracts using locked-in rate on the CSM.*
- *Effects of changes in interest rates and other financial assumptions.*
- *Net foreign exchange income/(expense).*
- *Effect of changes in non-performance risk of reinsurers.*

Rothesay disaggregates changes in the risk adjustment for non-financial risk between insurance service result and insurance finance income or expense. The groups of insurance contracts, including the CSM, that generate cash flows in a foreign currency are treated as monetary items.

Net foreign exchange income/(expense) is not shown in the table below because it is not material.

	2024 £m	2023 £m
Interest income on financial investments at fair value through profit or loss FVTPL	**3,089**	2,334
Unrealised (losses)/gains on financial investments and liabilities at FVTPL	**(4,929)**	3,312
Realised gains/(losses) on financial investments and liabilities at FVTPL	**200**	(482)
Investment management expenses	**(56)**	(61)
Total investment (loss)/return	**(1,696)**	5,103
Finance income/(expense) from insurance contracts issued		
Interest accreted to insurance contracts using current financial assumptions on fulfilment cash flows	**(2,745)**	(1,878)
Interest accreted to insurance contracts using locked-in rate on the CSM	**(173)**	(112)
Effects of changes in interest rates and other financial assumptions	**4,949**	(2,390)
Total finance income/(expense) from insurance contracts issued	**2,031**	(4,380)
Finance (expense)/income from reinsurance contracts held		
Interest accreted to reinsurance contracts using current financial assumptions on fulfilment cash flows	**(178)**	(157)
Interest accreted to reinsurance contracts using locked-in rate on the CSM	**8**	5
Effects of changes in interest rates and other financial assumptions	**(22)**	543
Effect of changes in non-performance risk of reinsurers	**1**	—
Total finance (expense)/income from reinsurance contracts held	**(191)**	391
Total net insurance finance income/(expense)	**1,840**	(3,989)
Represented by:		
Amounts recognised in profit or loss	**144**	1,114
Amounts recognised in other comprehensive income	**—**	—

Note B – Income statement notes (continued)

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

Given the approach to interest rate hedging, Rothesay is effectively over-hedged on an IFRS 17 basis. During 2024, long-term interest rates were higher driving losses (unrealised loss) on the financial investments.

Interest accreted to insurance contracts using current financial assumptions on fulfilment cash flows is the change in the carrying amount of the fulfilment cashflows due to accruing interest over time. The interest rates used to determine this amount are based on those prevailing at the beginning of the period. Interest accreted to insurance contracts using locked-in rate on the CSM reflects the change in the carrying amount of the CSM due to accruing interest over time using interest rates that were prevailing when the insurance contracts were written. The interest accretion in 2024 is higher than 2023 due to new business written in 2024 and the change in the interest rate expectations between periods.

Effects of changes in interest rates and other financial assumptions represent the change in the liabilities due to updated economic assumptions. This also includes the basis differences arising when determining adjustments to the CSM using the locked in economic assumptions versus current economic assumptions.

The components of finance income and expenses arising from reinsurance contracts are measured in a similar way to the underlying insurance contracts but also includes a consideration for the effect of changes in non-performance risk of reinsurers.

B.3 Operating expenses

Operating expenses are presented net of expenses attributed to insurance acquisition cash flows and other directly attributable expenses incurred by Rothesay relating to the fulfilment of the group of insurance contracts in the reporting period. Directly attributable expenses are included in measurement of fulfilment cash flows of the group of insurance contracts and recognised in insurance service expenses as incurred. The fulfilment cashflows for 2024 are higher than for 2023 as they include some expenses relating to new business which were incurred after the schemes incepted. Costs that are not directly attributable to a portfolio of insurance contracts are recognised in operating expenses as incurred.

The costs of acquiring new business are treated as insurance acquisition cash flows which are amortised in the insurance service expense over time. Where costs are incurred on business that is expected to be written in a subsequent period, an insurance acquisition asset is established.

Expenses can be broken down as follows:

	2024 £m	2023 £m
Attributable acquisition costs	**168**	161
Fulfilment cash flows	**107**	64
Non-attributable costs	**81**	116
Expenses	**356**	341

Non-attributable costs (shown as operating expenses in the statement of comprehensive income) can be broken down between reinsurance fees, property, plant and equipment and right-of-use assets depreciation, and other non-attributable costs. Other non-attributable costs have reduced due to an increase in costs during the year allowed for in fulfilment cashflows and attributed acquisition costs. Reinsurance fees can be positive or negative as this amount represents the change in provisions relating to such fees.

Notes to the financial statements continued

Note B – Income statement notes (continued)
B.3 Operating expenses (continued)

	2024 £m	2023 £m
Reinsurance fees	**(5)**	(3)
Property, plant and equipment depreciation	**3**	2
Lease-right-of-use assets depreciation	**6**	4
Other non-attributable costs	**77**	113
Operating expenses	**81**	116

No insurance acquisition asset was held at year end 2024 or year end 2023 as all acquisition cashflows were derecognised and included in the measurement of insurance contracts. An insurance acquisition asset held at the beginning of 2023 was derecognised and included in the measurement of the group of insurance contracts in 2023. The table below shows the movement in the value of that asset.

	2024 £m	2023 £m
Opening insurance acquisition asset	**—**	40
Acquisition cash flows during the year	**168**	161
Amounts derecognised and included in the measurement of insurance contracts	**(168)**	(201)
Closing insurance acquisition asset	**—**	—

B.4 Finance costs

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

	2024 £m	2023 £m
Interest payable on collateral	**246**	268
Interest payable on collateralised agreements and financing	**228**	116
Total interest payable on collateral and collateralised agreements	**474**	384
Interest payable on borrowings from related parties	**18**	18
Interest payable on third-party borrowings	**143**	101
Financing charge on leasehold liability	**3**	2
Total borrowing costs	**164**	121
Net finance costs	**638**	505

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

Note B – Income statement notes (continued)

B.5 Employee information

All persons involved in the Company's operations are employed by wider group undertakings, Rothesay Pensions Management Limited (RPML), Rothesay Asset Management Australia Pty Limited and Rothesay Asset Management NA. The charges made by RPML, Rothesay Asset Management Australia Pty Limited and Rothesay Asset Management NA for the services provided (personnel and other) to the Company are included in the management fees charged by group undertakings. Details of the employees of the Rothesay Limited Group are as follows:

Average number of staff employed during the year	500	428
Employees by department at year end		
Management	35	30
New business origination and investments	95	95
Technology, operations and project management	246	203
Finance, legal and HR	111	89
Risk and Internal audit	52	43
	539	460

Rothesay employee costs for the Rothesay Limited Group during the financial year (including Directors' salaries and other pension costs) are as follows:

	2024 £m	2023 £m
Wages and salaries	**175**	179
Social security costs	**29**	26
Other pension costs	**8**	6
Total employee benefits expense	**212**	211

Total employee benefit expenses have increased slightly, differences have been driven by changes in the share price and movements in the employee population. The key management personnel who have the authority and responsibility for planning, directing and controlling the activities of Rothesay include its Directors. Further details of key management personnel transactions are included in note I.4.

Directors' emoluments in respect of qualifying services to Rothesay were as follows:

	2024 £m	2023 £m
Directors' remuneration		
Aggregate emoluments	**9**	5
Company pension contributions to money purchase schemes	**—**	—
Total Directors' remuneration	**9**	5
Highest paid Director		
Total amount of emoluments	**4**	2
Company pension contributions to money purchase schemes	**—**	—
Total highest paid Director	**4**	2

Notes to the financial statements continued

Note B – Income statement notes (continued)

B.5 Employee information (continued)

In accordance with the Companies Act 2006, Directors' emoluments above represent the proportion of total emoluments paid or payable in respect of qualifying services. This total does not include the value of equity awards in accordance with the provisions of Schedule 5 of SI 2008/410.

During 2024, Directors received no emoluments for non-qualifying services which are required to be disclosed. Two Directors have been granted shares in Rothesay Limited (including the highest paid Director) (2023: four) in respect of long-term incentive schemes. No Directors have exercised options during the year. During 2024, three Directors were awarded a total of £5m compensation in relation to a long-term incentive plan, which rewards performance over a three-year period (2023: £nil).

B.6 Pension contributions

Rothesay operates a defined contribution pension scheme, sponsored by Rothesay Pensions Management Limited, and contributions to the scheme are charged to the consolidated statement of comprehensive income as they accrue. Contributions are also paid on behalf of employees of RAM NA and RAM Australia.

The amount charged for the financial year was £8m (2023: £6m). There were no outstanding contributions as at 31 December 2024 (2023: £nil).

B.7 Auditors' remuneration

Fees paid and payable to Rothesay's auditors are as follows:

	2024 £000s	2023 £000s
Remuneration receivable by the Company's auditors for the audit of the consolidated and Company financial statements	**2,237**	2,042
Remuneration receivable by the Company's auditors for the audit of the financial statements of the Company's subsidiaries	**134**	128
Total audit	**2,371**	2,170
Required by regulation	**274**	272
Audit-related assurance services	**316**	260
Other assurance services	**110**	55
Non-audit services	**—**	—
Total fees	**3,071**	2,757

Audit-related assurance services include the review of the Group's interim accounts and MCEV statements. Other assurance services provided in 2024 and 2023 relate to work associated with the renewal of the Euro Medium Term Note Programme and debt issuances. These services are in compliance with applicable independence rules and Rothesay considered that the external auditors were best placed to provide these services because of their expertise and their understanding of Rothesay.

Note B – Income statement notes (continued)

B.8 Income tax expense

Income tax assets and liabilities for the current year and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the financial statement date. Management uses previous experience and the advice of professional firms when assessing tax risks.

The major components of income tax expense for the years ended 31 December 2024 and 31 December 2023 are set out below:

	2024 £m	2023 £m
Current income tax:		
UK corporation tax	—	157
Loss carry back to prior year	(34)	—
Adjustment in respect of prior year	(6)	—
Total current income tax	**(40)**	157
Deferred tax:		
Origination and reversal of temporary differences	**67**	66
Total deferred tax	**67**	66
Total tax in the consolidated statement of comprehensive income	**27**	223

The tax expense in the consolidated statement of comprehensive income for the financial year and the standard rate of corporation tax in the UK of 25.00% (2023: 23.52%) is reconciled below:

	2024 £m	2023 £m
Profit on ordinary activities before taxation	**121**	913
Tax calculated at UK standard rate of corporation tax of 25.00% (2023: 23.52%)	**30**	215
Adjustment in respect of prior year	**(6)**	—
Impact of tax losses carried back at lower tax rate	**3**	—
Effect of tax sharing arrangement	—	8
Total tax expense reported in the consolidated statement of comprehensive income	**27**	223

The Government of the United Kingdom, where the Company is incorporated, enacted the Pillar Two income taxes legislation, with effect from 1 January 2024. Under the legislation, the parent company will be required to pay, in the United Kingdom, top-up tax on profits of its subsidiaries that are taxed at an effective tax rate of less than 15%. Based on the results for the period, the Group expects to be able to rely on the transitional safe harbour rules for the year ended 31 December 2024. As such, no top-up tax has been accrued during the period.

The Group has applied the temporary exception issued by the IASB in May 2023 from the accounting requirements for deferred taxes in IAS 12. Accordingly, the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes.

Notes to the financial statements continued

Note C – Equity

C.1 Share capital

At 31 December 2024 and 31 December 2023, share capital comprised:

Group and Company	2024		2023	
	No.	£m	No.	£m
Authorised share capital (ordinary shares of £1 each)	**529,573,825**	**529**	510,528,697	510

All of the shares in issuance are A ordinary shares.

On 24 September 2024 Rothesay Life Plc issued 19,045,128 ordinary shares for total cash consideration of £174m. No changes have been made to equity share capital during the year ended 2023.

C.2 Restricted Tier 1 notes – sterling

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

Group and Company				Carrying amount	
Notional amount	Issue date	Callable at par at the option of the Group from	Coupon	2024 £m	2023 £m
Loan notes issued through public debt markets					
£350m	12 September 2018	12 September 2028	6.875%	**347**	347
£450m	13 October 2021	13 October 2031	5%	**446**	446
				793	793

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

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

i) eligible Own Fund items are less than or equal to 75% of the SCR;
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 12 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.

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

Group and Company	Share premium £m	Hedging reserve £m	Profit and loss reserve £m
Balances as at 1 January 2024	**—**	**1**	**3,137**
Share issuance	**155**	**—**	**—**
Dividends paid	**—**	**—**	**(361)**
Effective portion of change in fair value of cash flow hedges	**—**	**4**	**—**
Tier 1 note coupon	**—**	**—**	**(47)**
Tier 1 coupon tax relief	**—**	**—**	**11**
Profit for the financial year	**—**	**—**	**94**
Balances as at 31 December 2024	**155**	**5**	**2,834**

Group and Company	Share premium £m	Hedging reserve £m	Profit and loss reserve £m
Balances as at 1 January 2023	—	4	2,835
Dividends paid	—	—	(351)
Effective portion of change in fair value of cash flow hedges	—	(3)	—
Tier 1 note coupon	—	—	(47)
Tier 1 coupon tax relief	—	—	10
Profit for the financial year	—	—	690
Balances as at 31 December 2023	—	1	3,137

Notes to the financial statements continued

Note C – Equity (continued)

C.3 Share premium account and reserve (continued)

Hedging reserve

Foreign currency exposure arises on the $400m RT1 notes and $325m Tier 2 notes, and the associated coupon payments (see note D.8). The risk arises from the fluctuation in exchange rates, which would cause volatility in the biannual coupon payments and the principal repayment.

As part of Rothesay's foreign currency risk management objective, cash flow hedges were put in place to remove the volatility caused by exchange rate movements, using bespoke fixed-for-fixed cross-currency swaps. The swaps are designated as hedges of probable forecasted transactions, being the foreign currency sterling costs of the coupons and principal payments.

Rothesay determines the existence of an economic relationship between the hedging instrument and the hedged item based on the currencies, interest rates, amounts and timing of their respective cash flows. Rothesay assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item under the hypothetical derivative method. It is Rothesay's policy to align the critical terms of the hedging instruments or the swaps with the hedged items or the USD notes. As the hedging instruments were bespoke derivatives, the hedge relationship is assessed to be highly effective and any ineffectiveness is expected to be immaterial. As allowed under IFRS 9, Rothesay continues to apply the hedge accounting requirements of IAS 39 as an accounting policy.

The total fair value of the currency swap hedging instruments is £38m as at 31 December 2024 (2023: £25m) with total nominal amounts of £546m as at 31 December 2024 (2023: £291m). The currency swaps are included in the derivative assets as part of the total financial investments (see note D.1).

C.4 Dividends on ordinary shares

The Board approved the payment of an interim dividend on 9 August 2024. The size of the payment was £361m (or 69p per share) during the year ended 31 December 2024 (2023: £351m). The Directors have recommended no final ordinary dividend in respect of the year ended 31 December 2024 (2023: £nil).

Note D – Financial assets and liabilities

D.1 Financial investments

Financial investments are designated, at initial recognition, as financial investments at fair value through profit or loss, with the exception of (i) derivative assets and lifetime mortgages which are mandatorily measured at fair value through profit or loss and (ii) receivables, cash and accrued interest, which are carried at amortised cost. Fair value is considered consistent with the risk management of the portfolio.

Financial investments at fair value through profit or loss are both financial investments held for trading and financial investments designated upon initial recognition at fair value. Such investments are carried in the consolidated statement of financial position at fair value with net changes in fair value presented in investment income. Transaction costs, which are incremental costs that are directly attributable to the acquisition of a financial asset, are expensed. Financial investments include collective investment schemes, Government, sub-sovereign and agency obligations, derivative assets, corporate bonds and other corporate debt, certificates of deposit, loans secured on property, mortgages and collateralised agreements and financing.

The fair value of a financial instrument is the amount that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. the exit price. Financial investments are marked to bid prices and financial liabilities are marked to offer prices. Fair value gains or losses are included in investment income.

The best evidence of fair value is a quoted price in an active market. If listed prices or quotations are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets, or internally developed models that primarily use, as inputs, market-based or independently sourced parameters, including but not limited to, interest rates, volatilities, equity or debt prices, foreign exchange rates, credit curves and funding rates. The fair value of certain financial investments and financial liabilities require valuation adjustments for counterparty credit quality, funding risk, transfer restrictions, illiquidity, property prices and bid/offer inputs based on market evidence.

Financial instruments such as corporate debt securities, covered bonds, government, sub-sovereign and agency obligations, certificate of deposits and certain money market instruments are valued using quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g. indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources. Valuation adjustments are typically made if (i) the cash instrument is subject to regulatory or contractual transfer restrictions; and/or (ii) for other premiums and discounts that a market participant would require to arrive at fair value.

Certain financial instruments, including collateralised agreements and financing, loans secured on property and mortgages, have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, these instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. When a pricing model is used, the model is adjusted so that the model value of the cash instrument at inception equals the transaction price. Subsequently, Rothesay uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realised on sales.

Rothesay uses derivative contracts for the purposes of efficient portfolio management and to mitigate the risk of adverse market movements. Rothesay's derivative contracts consist primarily of over the counter (OTC) derivatives. Rothesay measures the derivative assets and liabilities on the basis of our net exposure to the relevant risk and the fair value is the price paid to transfer the net long or short position at the balance sheet date. OTC derivatives are generally valued using market transactions and other market evidence, including market-based inputs to models, calibration to market clearing transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations and the relationship of recent market activity to the prices provided from alternative pricing sources.

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)
D.1 Financial investments (continued)

Where models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information in the market. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, model selection does not involve significant management judgement because outputs of models can be calibrated to market clearing levels. In circumstances where Rothesay cannot verify the model value by reference to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

Hedge accounting
In 2021 and 2024, Rothesay designated certain derivatives as hedging instruments in order to effect cash flow hedges. At the inception of the hedge Rothesay documented the relationship between the hedging instrument and the hedged item. In addition, Rothesay has and will continue to document whether the hedging instrument is highly effective in offsetting changes in fair value or cash flows of the hedged item. Note C.3 provides further details.

Where a cash flow hedging relationship exists, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in net investment income.

Amounts previously recognised in other comprehensive income and accumulated in equity will be reclassified to profit and loss in the accounting period when the hedged item affects profit or loss, in the same line as the hedged item. Hedge accounting will be discontinued when Rothesay cancels the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time is recycled to profit or loss over the period the hedged item impacts profit or loss.

Derecognition
A financial investment (or, where applicable, a part of a financial investment or part of a group of similar financial investments) is primarily derecognised (i.e. removed from Rothesay's statement of financial position) when (i) the rights to receive cash flows from the investment have expired; or (ii) Rothesay has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third-party under a 'pass-through' arrangement; and either (a) Rothesay has transferred substantially all the risks and rewards of the asset; or (b) Rothesay has transferred control of the investment.

When Rothesay has transferred its rights to receive cash flows from an investment or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred all of the risks and rewards of the investment nor transferred control of the investment, Rothesay continues to recognise the transferred investment to the extent of Rothesay's continuing involvement. In that case, Rothesay also recognises an associated liability. The transferred investment and the associated liability are measured on a basis that reflects the rights and obligations that Rothesay has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Rothesay could be required to repay.

Collateralised agreements and financing
Collateralised agreements (securities purchased under agreements to re-sell and deposits placed as collateral for stock borrowed) and collateralised financing (securities sold under agreements to repurchase and deposits received as collateral for stock loans) are treated as collateralised financing transactions and are carried at fair value through profit and loss under the fair value option, as the securities are managed on a fair value basis. The collateral can be in the form of cash or securities.

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Cash collateral is recognised/derecognised when received/paid. Collateral posted by Rothesay in the form of securities is not derecognised whilst collateral received in the form of securities is not recognised on the consolidated statement of financial position. If collateral received is subsequently sold, the obligation to return the collateral and the cash received are recognised in the consolidated statement of financial position.

Impairment of financial assets

In applying the IFRS 9 impairment requirements, Rothesay follows the general approach. Under the general approach, Rothesay determines and recognises the amount of expected credit losses (ECL) depending on the extent of credit deterioration since initial recognition of a financial asset. If there is no significant deterioration in credit risk since initial recognition of a financial asset, Rothesay determines the 12-month expected credit losses; if there has been a significant increase in credit risk since initial recognition of a financial asset, Rothesay determines and recognises the lifetime expected credit losses.

Rothesay's financial assets that are subject to impairment include receivables, cash and cash equivalents, and accrued interest. Considering these assets are due within one year, highly liquid with low credit risk, Rothesay assesses the amortised cost balances to approximate to their fair value and recoverable amounts. Due to the short-term nature and low credit risk of these assets, Rothesay assesses no deterioration in credit quality and measures the ECL at 12-month ECL.12-month ECL results from default events that are possible within the 12 months after the reporting date. Rothesay measures the ECL using a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls.

Rothesay considers evidence of impairment for these assets at both individual asset and collective levels. All individually significant assets are individually assessed for impairment. Rothesay assumes that credit risk of a financial asset has not increased significantly since initial recognition if the financial asset has low credit risk at the end of the reporting date.

Rothesay monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, Rothesay will measure the loss allowance based on lifetime rather than 12-month ECL. When assessing whether credit risk for a financial instrument has increased significantly since initial recognition, Rothesay considers reasonable, supportable and forward-looking information. This evaluation encompasses both qualitative and quantitative data, leveraging from Rothesay's expert credit assessments. The quantitative information is a primary indicator of significant increase in credit risk where Rothesay compares the lifetime probability of default as at the end of the reporting date against the lifetime risk of default on initial recognition of the exposure.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Rothesay's financial assets and liabilities are grouped into the following categories:

Group	2024 £m	2023 £m
Financial investments designated at FVTPL	**71,084**	59,139
Financial investments mandatorily measured at FVTPL	**46,344**	39,829
Total financial investments at FVTPL	**117,428**	98,968
Accrued interest at amortised cost	**848**	677
Receivables at amortised cost	**3,946**	2,106
Cash and cash equivalents at amortised cost	**210**	233
Total other financial assets at amortised cost	**5,004**	3,016
Total financial assets	**122,432**	101,984
Financial liabilities designated at FVTPL	**6,519**	2,969
Financial liabilities mandatorily measured at FVTPL	**40,095**	32,993
Total financial liabilities at FVTPL	**46,614**	35,962
Payables at amortised cost	**5,362**	5,271
Borrowings at amortised cost	**2,616**	2,248
Accrued interest at amortised cost	**152**	114
Total other financial liabilities at amortised cost	**8,130**	7,633
Total financial liabilities	**54,744**	43,595

Company	2024 £m	2023 £m
Financial investments designated at FVTPL	**70,225**	58,957
Financial investments mandatorily measured at FVTPL	**46,344**	39,829
Total financial investments at FVTPL	**116,569**	98,786
Accrued interest at amortised cost	**846**	676
Receivables at amortised cost	**4,257**	2,330
Cash and cash equivalents at amortised cost	**191**	183
Total other financial assets at amortised cost	**5,294**	3,189
Total financial assets	**121,863**	101,975
Financial liabilities designated at FVTPL	**5,877**	2,969
Financial liabilities mandatorily measured at FVTPL	**40,181**	32,993
Total financial liabilities at FVTPL	**46,058**	35,962
Payables at amortised cost	**5,362**	5,275
Borrowings at amortised cost	**2,616**	2,248
Accrued interest at amortised cost	**152**	114
Total other financial liabilities at amortised cost	**8,130**	7,637
Total financial liabilities	**54,188**	43,599

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Determination of fair value and fair value hierarchy

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

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

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

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

The following tables show an analysis of financial investments recorded at fair value by Level of the fair value hierarchy for 2024 and 2023 (please refer to note D.7 for financial liabilities):

Group 31 December 2024	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Collective investment schemes	5,999	—	93	6,092
Government sub-sovereign and agency obligations	16,278	7,744	—	24,022
Corporate bonds and other corporate debt	—	33,154	1,253	34,407
Collateralised agreements and financing	—	61	—	61
Loans secured on property	—	98	6,267	6,365
Certificates of deposit	—	137	—	137
Financial investments designated at FVTPL	22,277	41,194	7,613	71,084
Derivative assets (see note D.2)	—	38,374	1,567	39,941
Lifetime mortgages	—	—	6,403	6,403
Financial investments mandatorily measured at FVTPL	—	38,374	7,970	46,344
Total financial investments measured at FVTPL	22,277	79,568	15,583	117,428
Assets held for sale	—	—	3	3
Total assets measured at fair value	22,277	79,568	15,586	117,431

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Group 31 December 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Collective investment schemes	4,238	—	157	4,395
Government sub-sovereign and agency obligations	12,328	7,555	—	19,883
Corporate bonds and other corporate debt	—	27,394	817	28,211
Collateralised agreements and financing	—	63	—	63
Loans secured on property	—	103	6,344	6,447
Certificates of deposit	—	140	—	140
Financial investments designated at FVTPL	**16,566**	**35,255**	**7,318**	**59,139**
Derivative assets	—	31,723	1,894	33,617
Lifetime mortgages	—	—	6,212	6,212
Financial investments mandatorily measured at FVTPL	**—**	**31,723**	**8,106**	**39,829**
Total financial investments measured at FVTPL	**16,566**	**66,978**	**15,424**	**98,968**
Assets held for sale	—	—	127	127
Total assets measured at fair value	**16,566**	**66,978**	**15,551**	**99,095**

Company 31 December 2024	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Collective investment schemes	**5,694**	**—**	**93**	**5,787**
Government sub-sovereign and agency obligations	**16,278**	**7,744**	**—**	**24,022**
Corporate bonds and other corporate debt	**—**	**33,154**	**1,253**	**34,407**
Collateralised agreements and financing	**—**	**61**	**—**	**61**
Loans secured on property	**—**	**98**	**5,713**	**5,811**
Certificates of deposit	**—**	**137**	**—**	**137**
Financial investments designated at FVTPL	**21,972**	**41,194**	**7,059**	**70,225**
Derivative assets (see note D.2)	**—**	**38,374**	**1,567**	**39,941**
Lifetime mortgages	**—**	**—**	**6,403**	**6,403**
Financial investments mandatorily measured at FVTPL	**—**	**38,374**	**7,970**	**46,344**
Total financial investments at FVTPL	**21,972**	**79,568**	**15,029**	**116,569**
Assets held for sale	**—**	**—**	**3**	**3**
Total assets measured at fair value	**21,972**	**79,568**	**15,032**	**116,572**

Note D – Financial assets and liabilities (continued)
D.1 Financial investments (continued)

Company 31 December 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Collective investment schemes	4,056	—	157	4,213
Government sub-sovereign and agency obligations	12,328	7,555	—	19,883
Corporate bonds and other corporate debt	—	27,394	817	28,211
Collateralised agreements and financing	—	63	—	63
Loans secured on property	—	103	6,344	6,447
Certificates of deposit	—	140	—	140
Financial investments designated at FVTPL	**16,384**	**35,255**	**7,318**	**58,957**
Derivative assets (see note D.2)	—	31,723	1,894	33,617
Lifetime mortgages	—	—	6,212	6,212
Financial investments mandatorily measured at FVTPL	**—**	**31,723**	**8,106**	**39,829**
Total financial investments at FVTPL	**16,384**	**66,978**	**15,424**	**98,786**
Assets held for sale	—	—	127	127
Total assets measured at fair value	**16,384**	**66,978**	**15,551**	**98,913**

Rothesay discloses offsetting derivative asset and derivative liability contracts separately in line with IAS 32 requirements and the value of both has increased significantly during the year due to changes in economic conditions. However, the movement in the value of derivative assets is offset by the movement in the value of derivative liabilities such that on a net basis the value of derivatives decreased by £778m during 2024 (2023: increased by £613m) for the Group and for the Company decreased by £864m (2023: increased by £613m).

Collective investment schemes represent money market funds with same-day liquidity. Rothesay utilises these funds as an additional form of financial investment to back insurance contract liabilities. In 2024, there were other investments in funds which are classified within collective investment schemes which are classified as Level 3 assets.

Loans secured on property mainly comprise investments in Commercial real-estate loans, UK and European residential mortgages and loans, and assets secured on cashflows from residential freehold properties.

Approximately 13% (2023: 16%) of the total financial investments recorded at fair value are valued based on estimates using unobservable inputs and recorded as Level 3 investments.

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.1 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 lifetime mortgages which are discussed in the lifetime mortgages in the subsequent section below):

	Financial assets measured at fair value on a recurring basis			Others			Financial liabilities measured at fair value on a recurring basis		
Group	Corporate bonds & other corporate debt £m	Loans secured on property £m	Derivative assets £m	Collective investment schemes £m	Assets held for sale £m	Total £m	Collateralised agreements and financing £m	Derivative liabilities £m	Total £m
As at 1 January 2024	**817**	**6,344**	**1,894**	**157**	**127**	**9,339**	**(119)**	**(1,985)**	**(2,104)**
Total gains/(losses) in the statement of comprehensive income:									
Realised gains	**—**	**8**	**—**	**13**	**7**	**28**	**—**	**—**	**—**
Unrealised (losses)/gains	**(12)**	**(162)**	**(312)**	**—**	**(2)**	**(488)**	**12**	**359**	**371**
Transfer out of Level 3	**—**	**—**	**—**	**—**	**(5)**	**(5)**	**—**	**—**	**—**
Transfer into Level 3	**—**	**—**	**1**	**—**	**—**	**1**	**—**	**(1)**	**(1)**
Net purchases/(sales)	**448**	**77**	**(16)**	**(77)**	**(124)**	**308**	**—**	**9**	**9**
As at 31 December 2024	**1,253**	**6,267**	**1,567**	**93**	**3**	**9,183**	**(107)**	**(1,618)**	**(1,725)**
Group and Company									
As at 1 January 2023	756	5,846	1,817	—	—	8,419	(113)	(1,882)	(1,995)
Total gains/(losses) in the statement of comprehensive income:									
Unrealised (losses)/gains	(8)	(225)	77	—	—	(156)	(6)	(94)	(100)
Transfer into Level 3	38	—	—	—	—	38	—	(2)	(2)
Net purchases	31	723	—	157	127	1,038	—	(7)	(7)
As at 31 December 2023	817	6,344	1,894	157	127	9,339	(119)	(1,985)	(2,104)

Note D – Financial assets and liabilities (continued)
D.1 Financial investments (continued)

Company	Financial assets measured at fair value on a recurring basis				Others		Financial liabilities measured at fair value on a recurring basis		
	Corporate bonds & other corporate debt £m	Loans secured on property £m	Derivative assets £m	Collective investment schemes £m	Assets held for sale £m	Total £m	Collateralised agreements and financing £m	Derivative liabilities £m	Total £m
As at 1 January 2024	**817**	**6,344**	**1,894**	**157**	**127**	**9,339**	**(119)**	**(1,985)**	**(2,104)**
Total gains/(losses) in the statement of comprehensive income:									
Realised gains	**—**	**8**	**—**	**13**	**7**	**28**	**—**	**—**	**—**
Unrealised (losses)/gains	**(12)**	**(162)**	**(312)**	**—**	**(2)**	**(488)**	**12**	**359**	**371**
Transfer out of Level 3	**—**	**—**	**—**	**—**	**(5)**	**(5)**	**—**	**—**	**—**
Transfer into Level 3	**—**	**—**	**1**	**—**	**—**	**1**	**—**	**(1)**	**(1)**
Net purchases/(sales)	**448**	**(477)**	**(16)**	**(77)**	**(124)**	**(246)**	**—**	**9**	**9**
As at 31 December 2024	**1,253**	**5,713**	**1,567**	**93**	**3**	**8,629**	**(107)**	**(1,618)**	**(1,725)**

Please see note D.7 for further details of Level 3 financial liabilities. Please refer to note D.6 for the details of assets held for sale.

Rothesay's policy is to determine the relevant categorisation of financial assets and liabilities at each reporting period and, where availability of inputs has changed, transfers will be made between Levels. No corporate debt was transferred from Level 2 to Level 3 during the year (2023: £38m). No corporate debt was transferred from Level 3 to Level 2 in 2024 (2023: £nil).

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

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Lifetime mortgages

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

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

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

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

Given the various assumptions used in valuing the lifetime mortgages, the instruments are recorded as Level 3 assets. The table below provides an analysis of the movement in the value of lifetime mortgages. New business includes both the acquisition of back books of lifetime mortgages and new origination through Rothesay's strategic partners. The impact of the change in economic assumptions for 2024 is dominated by the increase in interest rates.

Group and Company	2024 £m	2023 £m
Carrying amount at 1 January	**6,212**	5,086
Increase in respect of new business	**481**	745
Redemptions/repayments	**(351)**	(288)
Accrued interest for the financial year	**351**	305
Change in economic assumptions	**(283)**	369
Change in demographic assumptions	**(7)**	(5)
Closing balance at end of the year	**6,403**	6,212

The table below provides a summary of the discounted cash flows arising from the lifetime mortgage portfolio:

Group and Company	2024 £m	2023 £m
Less than one year	**458**	469
One to five years	**1,358**	1,336
Over five years	**4,587**	4,407
Total	**6,403**	6,212

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

Collateralised agreements

Assets are transferred under repurchase and securities lending agreements with other financial institutions. The nature and carrying amounts of the assets (all carried at fair value) subject to repurchase and securities lending agreements, as well as their related liabilities, are as follows:

Group and Company	2024 Asset £m	2024 Related liability £m	2023 Asset £m	2023 Related liability £m
Government and agency obligations	**6,189**	**(5,770)**	3,215	(2,969)
Corporate debt	**111**	**(107)**	—	—
Total collateralised agreements	**6,300**	**(5,877)**	3,215	(2,969)

The asset collateral continues to be recognised in full and the related liability reflecting Rothesay's obligations to repurchase the transferred assets at a future date is recognised in other liabilities. Rothesay remains exposed to interest rate risk and credit risk on these pledged instruments. The counterparties' recourse is not limited to the transferred assets.

The net exposure to certain OTC derivatives is collateralised through cash. As at 31 December 2024, the total cash collateral received was £5,121m (2023: £4,940m). Other OTC contracts are collateralised with fixed income securities which are not recognised on the balance sheet of Rothesay.

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

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

For corporate bonds and other corporate debt, a 25bp sensitivity is applied to secured debt and a 50bp sensitivity is applied to unsecured corporate bonds. The range of reasonably possible alternative inputs has been reviewed for an indication of changes based on market measures such as the quoted bid-offer spreads in liquid bond markets relevant to the investment portfolio and it was deemed to remain appropriate at the reporting date. The sensitivity to the assumed illiquidity premium for assets secured on cashflows from residential freehold properties remains at +/- 50bps to reflect potential legislative uncertainty following the passage of the Leasehold and Freehold Reform Act 2024.

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

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

Group Impact on financial assets & liabilities, PBT and equity	Main assumptions	Changes in assumptions	2024 Current FV £m	(Decrease)/ Increase in FV £m	(Decrease)/ Increase in PBT £m	(Decrease)/ Increase in equity £m
Financial assets						
Corporate bonds and other corporate debt	Liquidity premium	+25bps/+50bps	**1,253**	**(21)**	**(3)**	**(2)**
		-25bps/-50bps	**1,253**	**21**	**2**	**2**
Collective investment schemes	Fund price	+10%	**93**	**9**	**9**	**7**
		-10%	**93**	**(9)**	**(9)**	**(7)**
Loans secured on property	Liquidity premium	+25bps/+50bps	**6,267**	**(198)**	**—**	**—**
		-25bps/-50bps	**6,267**	**220**	**—**	**—**
Loans secured on property	Property prices	+10%	**6,267**	**22**	**26**	**19**
		-10%	**6,267**	**(23)**	**(30)**	**(22)**
Lifetime mortgages	Liquidity premium	+25bps	**6,403**	**(168)**	**—**	**—**
		-25bps	**6,403**	**176**	**—**	**—**
Lifetime mortgages	House prices	+10%	**6,403**	**71**	**53**	**40**
		-10%	**6,403**	**(96)**	**(74)**	**(55)**
Derivative assets	LPI bid-mid spread	+15bps	**1,567**	**6**	**6**	**4**
		-15bps	**1,567**	**(6)**	**(6)**	**(4)**
Assets held for sale	Property prices	+10%	**3**	**—**	**—**	**—**
		-10%	**3**	**—**	**—**	**—**
Financial liabilities						
Derivative liabilities	LPI bid-mid spread	+15bps	**1,618**	**73**	**73**	**54**
		-15bps	**1,618**	**(73)**	**(73)**	**(54)**
Collateralised financing agreements	Liquidity premium	+25bps	**107**	**5**	**5**	**3**
		-25bps	**107**	**(5)**	**(5)**	**(3)**

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

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

Group and Company			2023			
Impact on financial assets & liabilities, PBT and equity	Main assumptions	Changes in assumptions	Current FV £m	(Decrease)/ Increase in FV £m	(Decrease)/ Increase in PBT £m	(Decrease)/ Increase in equity £m
Financial assets						
Corporate bonds and other corporate debt	Liquidity premium	+25bps/+50bps	817	(15)	(1)	(1)
		-25bps/-50bps	817	16	1	1
Collective investment schemes	Fund price	+10%	157	16	16	12
		-10%	157	(16)	(16)	(12)
Loans secured on property	Liquidity premium	+25bps/+50bps	6,344	(227)	—	—
		-25bps/-50bps	6,344	258	—	—
Loans secured on property	Property prices	+10%	6,344	13	15	11
		-10%	6,344	(24)	(30)	(23)
Lifetime mortgages	Liquidity premium	+25bps	6,212	(164)	—	—
		-25bps	6,212	171	—	—
Lifetime mortgages	House prices	+10%	6,212	71	54	41
		-10%	6,212	(95)	(74)	(57)
Derivative assets	LPI bid-mid spread	+15bps	1,894	7	7	6
		-15bps	1,894	(7)	(7)	(6)
Assets held for sale	Property prices	+10%	127	13	13	10
		-10%	127	(13)	(13)	(10)
Financial liabilities						
Derivative liabilities	LPI bid-mid spread	+15bps	1,985	86	86	66
		-15bps	1,985	(86)	(86)	(66)
Collateralised financing agreements	Liquidity premium	+25bps	119	6	6	4
		-25bps	119	(6)	(6)	(4)

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)

D.1 Financial investments (continued)

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

Company			2024			
Impact on financial assets & liabilities, PBT and equity	Main assumptions	Changes in assumptions	Current FV £m	(Decrease)/ Increase in FV £m	(Decrease)/ Increase in PBT £m	(Decrease)/ Increase in equity £m
Financial assets						
Corporate bonds and other corporate debt	Liquidity premium	+25bps/+50bps	**1,253**	**(21)**	**(3)**	**(2)**
		-25bps/-50bps	**1,253**	**21**	**2**	**2**
Collective investment schemes	Fund price	+10%	**93**	**9**	**9**	**7**
		-10%	**93**	**(9)**	**(9)**	**(7)**
Loans secured on property	Liquidity premium	+25bps/+50bps	**5,713**	**(198)**	**—**	**—**
		-25bps/-50bps	**5,713**	**220**	**—**	**—**
Loans secured on property	Property prices	+10%	**5,713**	**22**	**26**	**19**
		-10%	**5,713**	**(23)**	**(30)**	**(22)**
Lifetime mortgages	Liquidity premium	+25bps	**6,403**	**(168)**	**—**	**—**
		-25bps	**6,403**	**176**	**—**	**—**
Lifetime mortgages	House prices	+10%	**6,403**	**71**	**53**	**40**
		-10%	**6,403**	**(96)**	**(74)**	**(55)**
Derivative assets	LPI bid-mid spread	+15bps	**1,567**	**6**	**6**	**4**
		-15bps	**1,567**	**(6)**	**(6)**	**(4)**
Assets held for sale	Property prices	+10%	**3**	**—**	**—**	**—**
		-10%	**3**	**—**	**—**	**—**
Financial liabilities						
Derivative liabilities	LPI bid-mid spread	+15bps	**1,618**	**73**	**73**	**54**
		-15bps	**1,618**	**(73)**	**(73)**	**(54)**
Collateralised financing agreements	Liquidity premium	+25bps	**107**	**5**	**5**	**3**
		-25bps	**107**	**(5)**	**(5)**	**(3)**

Note D – Financial assets and liabilities (continued)

D.2 Derivatives

Rothesay uses derivative financial instruments as part of its risk management strategy and to hedge its solvency position. Objectives include managing exposure to market, foreign currency, inflation and interest rate risks on assets and liabilities (see also note F.2.2). The large movement in the fair value of assets and liabilities has been driven by the change in economic conditions over the year. The total net fair value of Rothesay's derivative assets and liabilities has moved from an asset of £624m as at 31 December 2023 to a liability of £154m as at 31 December 2024 for Group and to a liability of £240m for Company.

The following table shows the fair value of derivative financial instruments, recorded as assets or liabilities.

Group	2024		2023	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Derivatives held for risk management				
Interest rate swap	**31,541**	**(32,084)**	25,920	(26,094)
Inflation swap	**3,959**	**(3,414)**	4,326	(3,911)
Currency swap	**4,278**	**(4,505)**	3,215	(2,849)
Credit derivative	**96**	**(26)**	40	(105)
Forwards	**67**	**(66)**	116	(34)
Total	**39,941**	**(40,095)**	33,617	(32,993)

Company	2024		2023	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Derivatives held for risk management				
Interest rate swap	**31,541**	**(32,170)**	25,920	(26,094)
Inflation swap	**3,959**	**(3,414)**	4,326	(3,911)
Currency swap	**4,278**	**(4,505)**	3,215	(2,849)
Credit derivative	**96**	**(26)**	40	(105)
Forwards	**67**	**(66)**	116	(34)
Total	**39,941**	**(40,181)**	33,617	(32,993)

Derivatives are used solely for efficient portfolio and risk management purposes, allowing market risks to be hedged in line with our risk appetite. Under IFRS certain restrictions apply in relation to the offset of assets and liabilities. Derivatives where the fair value is positive are recognised as an asset, and where the fair value is negative they are recognised as a liability.

Rothesay's exposure under derivative contracts is closely monitored as part of the management of Rothesay's market risk (see also note F.2.2).

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)
D.3 Accrued interest and prepayments

Group	2024 £m	2023 £m
Accrued interest	**848**	677
Prepaid expenses	**214**	193
Total accrued interest and prepayments	**1,062**	870

Company	2024 £m	2023 £m
Accrued interest	**846**	676
Prepaid expenses	**214**	193
Total accrued interest and prepayments	**1,060**	869

D.4 Receivables

Receivables are recognised initially at fair value of the amount recoverable. Receivables are subsequently stated at amortised cost.

Finance lease receivables are initially measured at fair value plus initial direct cost of entering the lease, and subsequently measured at amortised cost. Rothesay determines at the lease inception, or on lease purchase date, whether the lease is a finance lease or an operating lease. Rothesay classifies a lease as a finance lease if the terms of the lease transfers substantially all of the risk and rewards incidental to the ownership of the underlying asset. Rothesay applies derecognition and impairment requirements of IFRS 9 to the finance lease receivables, and regularly reviews any estimated unguaranteed residual values used in calculating the gross investment in the lease.

Group	2024 £m	2023 £m
Deposits pledged as collateral to third parties	**3,614**	1,619
Amounts due from Group undertakings	**111**	95
Tax receivable	**82**	—
Finance lease receivable	**90**	—
Other receivables	**49**	392
Total receivables	**3,946**	2,106

Company	2024 £m	2023 £m
Deposits pledged as collateral to third parties	**3,614**	1,619
Amounts due from Group undertakings	**113**	98
Tax receivable	**82**	—
Finance lease receivable	**90**	—
Other receivables	**358**	613
Total receivables	**4,257**	2,330

Other receivables includes trade date adjustments.

Receivables of £3,856m (2023: £2,106m) are due within one year for the Group and £4,167m (2023: £2,330m) for the Company. The fair value of receivables excluding finance lease receivable is £3,856m (2023: £2,106m) for the Group and £4,167m (2023: £2,330m) for the Company. At 31 December 2024 and 31 December 2023, Rothesay conducted an impairment review of the receivables and found no impairment necessary.

Note D – Financial assets and liabilities (continued)

D.4 Receivables (continued)

The net exposure to certain OTC derivatives is collateralised through cash posted, as per the terms of the OTC contracts. At 31 December 2024, the total cash collateral posted was £3,614m (2023: £1,619m). Further details of the full extent of collateral usage can be found in the credit risk disclosure in note F.2.1.

The Finance lease receivable includes a long-dated commercial property lease. The undiscounted lease payments to be received after the reporting date are shown below. The cashflows provided below are the estimated minimum payments to be received, while the actual cashflows may differ as the lease includes a clause to enable an upward revision of lease payments based on an index with maximum upper limit. The unearned finance income represents the discounting effect of the lease payments receivable.

Group and Company	2024 £m	2023 £m
Less than one year	**3**	—
One to two years	**3**	—
Two to three years	**3**	—
Three to four years	**3**	—
Four to five years	**3**	—
More than five years	**3,295**	—
Total undiscounted lease receivable	**3,310**	—
Unearned finance income	**(3,220)**	—
Net investment in finance lease	**90**	—

Rothesay recognised a total of £0.6m finance income on the finance lease receivable in 2024 (2023: £nil).

D.5 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement held for the purpose of meeting short-term cash commitments.

The cash at bank and in hand of Rothesay at the year end is as follows:

Group	2024 £m	2023 £m
Cash at bank and in hand	**210**	233
Total cash and cash equivalents	**210**	233

Company	2024 £m	2023 £m
Cash at bank and in hand	**191**	183
Total cash and cash equivalents	**191**	183

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)
D.6 Assets held for sale

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

The assets held for sale of Rothesay at the year end is as follows:

Group and Company	2024 £m	2023 £m
Investment properties	**3**	48
Finance lease receivables	**—**	79
Total assets held for sale	**3**	127

At year end 2023, investment properties included residential properties and a hotel under short-term lease. Finance lease receivables included long-term leases of commercial ground rent properties. During 2024, Rothesay succeeded in its plan to sell the majority of these assets, leaving one investment property which is expected to be sold in early 2025.

The fair value measurement of assets held for sale at year end 2024 and 2023 was categorised as Level 3 as one or more inputs was significant and unobservable.

D.7 Payables and financial liabilities

Financial investment liabilities are recognised at fair value. The effects of mark-to-market changes in financial liabilities designated at fair value are reported in profit or loss. Payables are recognised initially at fair value of the amount payable, and subsequently stated at amortised cost.

Group	2024 £m	2023 £m
Derivative financial instruments	**40,095**	32,993
Collateralised agreements and financing	**6,519**	2,969
Total financial investment liabilities	**46,614**	35,962
Deposits received as collateral from third parties	**5,121**	4,940
Amounts due to Group undertakings	**192**	171
Current tax payable	**—**	105
Other payables	**49**	55
Total payables	**5,362**	5,271
Total payables and financial investment liabilities	**51,976**	41,233

Note D – Financial assets and liabilities (continued)

D.7 Payables and financial liabilities (continued)

Company	2024 £m	2023 £m
Derivative financial instruments	**40,181**	32,993
Collateralised financing agreements	**5,877**	2,969
Total financial liabilities	**46,058**	35,962
Deposits received as collateral from third parties	**5,121**	4,940
Amounts due to group undertakings	**192**	171
Current tax payable	**—**	105
Other payables	**49**	59
Total payables	**5,362**	5,275
Total payables and financial liabilities	**51,420**	41,237

Other payables include reinsurance fees and trade date adjustments.

Financial investment liabilities are recorded at fair value, of which £1,725m are valued using Level 3 techniques (2023: £2,104m). The Level 3 financial liabilities are predominantly LPI linked derivatives. The remainder of the financial liabilities are valued using Level 1 and Level 2 techniques.

The impact on the fair value of Level 3 financial liabilities of using reasonably possible alternative assumptions is included in note D.1.

Payables and financial liabilities of the Group £11,113m and Company £11,113m (2023: £11,007m Group and £11,011m Company) are all due within one year. Please note, that for financial liabilities the balance is calculated using undiscounted expected contractual cash flows consistent with note F.2.3.

The net exposures to certain OTC derivatives are collateralised through cash. As at 31 December 2024, the total cash collateral received was £5,121m (2023: £4,940m). Other OTC contracts are collateralised with fixed income securities which are not recognised on the consolidated statement of financial position for Rothesay.

Notes to the financial statements continued

Note D – Financial assets and liabilities (continued)
D.8 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Transaction costs are amortised over the period of the borrowings.

Rothesay's borrowings are as follows:

Group and Company	2024 £m	2023 £m
Subordinated loans from related parties	**299**	299
Subordinated loan notes	**1,999**	1,636
US$400m contingent convertible RT1 notes	**318**	313
Total borrowed	**2,616**	2,248

During June 2024, Rothesay Life Plc (RLP) issued £500m of 10-year Tier 2 debt in the sterling market and $325m of 10-year Tier 2 debt in the US dollar market. The sterling notes mature on 10 December 2034 and can be called at par at any time from 10 June 2034. A fixed coupon of 7.019% is payable annually in arrears. The US Dollar notes mature on 11 September 2034 and can be called at par at any time from 11 June 2029 up to 10 September 2029. A fixed coupon of 7.00% is payable annually in arrears. If the notes are not repaid by 11 September 2029, the fixed rates of interest per annum will be reset.

In September 2024, Rothesay called £400m of Tier 2 borrowings.

The carrying amounts, fair values and features of Rothesay's borrowings are summarised in the table below:

Notional amount	Issue date	Redemption date	Callable at par at the option of the Group from	Coupon	Carrying amount 2024 £m	Carrying amount 2023 £m	Fair value 2024 £m	Fair value 2023 £m
Subordinated loans from related parties								
£300m	19 September 2017	19 September 2028	19 September 2023 and annually thereafter	6.05%	**299**	299	**287**	297
Subordinated loans								
£250m	30 October 2015	30 October 2025	No call option	8.00%	**250**	250	**255**	258
£500m	12 July 2019	12 July 2026	No call option	3.38%	**496**	492	**486**	472
£400m	17 September 2019	17 September 2029	17 September 2024	5.50%	**—**	396	**—**	396
$400m	27 October 2021	Perpetual	13 April 2027	4.88%	**318**	313	**295**	252
£500m	16 May 2023	16 May 2033	16 November 2032	7.73%	**498**	498	**532**	535
£500m	3 June 2024	10 December 2034	10 June 2034	7.02%	**498**	—	**510**	—
$325m	4 June 2024	11 September 2034	11 June 2029	7.00%	**257**	—	**269**	—

For the year ended 31 December 2024, an interest expense of £161m (2023: £119m) was recognised in the consolidated statement of comprehensive income in respect of these borrowings.

Note D – Financial assets and liabilities (continued)

D.8 Borrowings (continued)

Reconciliation of net borrowings

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

Group and Company	1 January 2024 £m	Net Cash flows £m	Non-cash flows £m	31 December 2024 £m
Subordinated loans from related parties	**299**	**—**	**—**	**299**
Subordinated loan notes	**1,636**	**354**	**9**	**1,999**
US$400m contingent convertible RT1 notes	**313**	**—**	**5**	**318**
Total borrowings	**2,248**	**354**	**14**	**2,616**

Group and Company	1 January 2023 £m	Net Cash flows £m	Non-cash flows £m	31 December 2023 £m
Subordinated loans from related parties	299	—	—	299
Subordinated loan notes	1,135	498	3	1,636
US$400m contingent convertible RT1 notes	330	—	(17)	313
Total borrowings	1,764	498	(14)	2,248

D.9 Accruals

Group and Company	2024 £m	2023 £m
Accrued interest	**152**	114
Accrued expenses	**50**	42
Total accruals	**202**	156

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance

Insurance contract liabilities and reinsurance assets and liabilities are determined in line with IFRS 17 using methods and assumptions recommended by the Actuarial function of RLP and approved by the Board.

Segmental analysis and level of aggregation

All of Rothesay's business risks and returns are within one business segment (i.e. long-term insurance business). Rothesay's insurance operations are within the United Kingdom.

Under IFRS 17, insurance contracts are aggregated into groups of contracts for measurement and presentation purposes. Rothesay has identified a single portfolio of annuity contracts and manages all of its annuity business together regardless of whether contracts are insurance or reinsurance issued as they are all subject to similar risks and are managed together. The portfolio of annuity contracts are disaggregated into groups of contracts that are issued within a calendar year (annual cohorts) and are:

a) Contracts that are onerous at initial recognition;
b) Contracts that have no significant possibility of becoming onerous subsequently; and
c) Remaining contracts in the portfolio.

Rothesay determines the appropriate level at which reasonable and supportable information is available to assess whether these contracts are onerous at initial recognition and whether non-onerous contracts have a significant possibility of becoming onerous. The profitability of the annuity contracts is assessed and determined based on expert judgement, which compares the premium applicable to a group of contracts with the estimated fulfilment cash flows and allocated insurance acquisition cash flows at initial recognition (accounting policies are described below). Whether a group of insurance contracts has no significant possibility of becoming onerous subsequently is based on expert judgement using Rothesay's Solvency II capital requirements, which include quantitative assessment of whether the contract premium is sufficient to exceed the sum of the contract's day one fulfilment cash flows and the SCR required to cover the material risks of the contract to the level required under Rothesay's Capital Management Policy. Based on the quantitative assessment, the majority of trades would not remain profitable under a wide range of scenarios, in line with Rothesay's expectations.

Based on the information available, we have categorised all our insurance contracts at initial recognition as "remaining contracts in the portfolio". Rothesay currently does not have any onerous contracts or "contracts that have no significant possibility of becoming onerous subsequently", which are contracts that will remain non-onerous in almost all reasonable future financial and non-financial conditions.

The aggregation of portfolios of reinsurance contracts held is assessed separately from insurance contracts issued. We apply a similar categorisation approach to reinsurance contracts, which results in the following group categories:

a) Contracts with a net gain at initial recognition;
b) Contracts that have no significant possibility of a net gain arising subsequently; and
c) Remaining contracts in the portfolio.

The aggregation assessment of reinsurance contracts held is performed on an individual contract level in a similar manner to the approach for insurance contracts.

Fulfilment cash flows within contract boundary

The fulfilment cash flows are the current estimates of the future cash flows within the contract boundary of a group of contracts that Rothesay expects to collect as premiums and pay out as claims, benefits and directly attributable expenses, adjusted to reflect the timing and the uncertainty of those amounts. The fulfilment cash flows are made up of the present value of the best estimate liabilities and the risk adjustment for non-financial risk (discussed further in the initial measurement section).

The estimates of future cash flows:

a) are based on a probability-weighted mean of the full range of possible outcomes;
b) are determined to be consistent with observable market prices for market variables; and
c) reflect conditions existing at the measurement date.

Note E – Insurance contracts and reinsurance (continued)

Fulfilment cash flows within contract boundary (continued)

We only include cash flows that are within the contract boundary in measuring groups of insurance contracts. Cash flows are within the boundary of an insurance contract if they arise from the rights and obligations that exist during the period in which the policyholder is obligated to pay premiums or Rothesay has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation to provide services ends when:

- *Rothesay has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or*
- *Rothesay has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.*

In practice, Rothesay's obligation to provide services generally ends with the death of the last insured life.

The reassessment of risks considers only risks transferred from policyholders to Rothesay, which may include both insurance and financial risks, but exclude lapse and expense risks.

For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations of Rothesay that exist during the reporting period in which Rothesay is compelled to pay amounts to the reinsurer or in which Rothesay has a substantive right to receive insurance contract services from the reinsurer. A substantive right to receive services from the reinsurer ends at the later of:

- *When the reinsurer can reassess the services and reprice and set a new premium or change the level of benefits which fully reflect the reassessed risk, thereby ending the substantive right of the holder of the reinsurance to receive the service; and*
- *The insurer is no longer compelled to pay a premium, thereby ending the substantive obligation.*

Insurance acquisition cash flows

Cash flows which have been identified as insurance acquisition cash flows are allocated to groups of insurance contracts using a systematic and rational method and considering all reasonable and supportable information that is available without undue cost or effort. Insurance acquisition cash flows arising before the recognition of the related group of contracts can be recognised as an asset. The asset is derecognised when the insurance acquisition cash flows are included in the measurement of the group of contracts. At each reporting date, if facts and circumstances indicate that an asset for insurance acquisition cash flows may be impaired, Rothesay recognises an impairment loss in profit or loss.

Initial recognition

Groups of insurance contracts issued are initially recognised from the earliest of the following:

- *The beginning of the coverage period;*
- *The date when the first payment from the policyholder is due or actually received, if there is no due date; or*
- *When the Group determines that a group of contracts becomes onerous.*

Insurance contracts acquired in a portfolio transfer are accounted for as if they were entered into at the date of transfer. Note that insurance contract liabilities include reinsurance inwards, i.e. where Rothesay has reinsured a third-party insurer. Where such contracts benefit from third-party reinsurance, the insurance contract liabilities are shown net of those reinsurance arrangements.

Reinsurance contracts held are recognised as follows:

- *Reinsurance contracts held that provide proportionate coverage are recognised at the later of the beginning of the coverage period of the group, and the initial recognition of any underlying insurance contract.*
- *Other reinsurance contracts held are recognised from the beginning of the coverage period of the group of reinsurance contracts held.*

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

Initial measurement

Rothesay has adopted the General Measurement Model (GMM) for the derivation of all our insurance liabilities. Under the GMM, on initial recognition our liabilities comprise the following building blocks:

a) ***Best estimate liabilities (BEL)***

The BEL represents an explicit and unbiased estimate of future cash flows that will arise as Rothesay fulfils the contracts discounted using an approach that reflects the characteristics of the liability (refer to note E.7). In determining the BEL, we use best estimate assumptions based on available market data in an unbiased way. These include demographic assumptions and financial assumptions (refer to note E.7 for the key demographic and financial assumptions applied) which are generally consistent with those used for deriving the best estimate liabilities under other financial reporting metrics such as MCEV and Solvency II.

Rothesay uses consistent assumptions to measure the estimates of the present value of future cash flows for the group of reinsurance contracts held as the estimates for the underlying groups of insurance contracts.

b) ***Risk adjustment (RA)***

The RA reflects the compensation that Rothesay requires for bearing the non-financial uncertainty about the amount and timing of cash flows in the liabilities. In determining the RA, we use the provision for adverse deviation approach (the PAD approach) under which we apply margins to the best estimates for material demographic and expense risk. Allowances are made for operational risk and diversification between these risk factors. These allowances reflect Rothesay's compensation for bearing the uncertainty around these risks. A consistent technique is applied to both insurance and reinsurance contracts held, with the RA related to reinsurance reflecting the amount of additional or reduced compensation that Rothesay requires for holding the reinsurance contracts. For more details on Risk adjustment please see note E.7 (e).

Methods and assumptions used to determine the risk adjustment for non-financial risk are discussed in note E.7.

c) ***Contractual service margin (CSM)***

The CSM represents the unearned profit that Rothesay will recognise over time as it provides services in the future of the insurance contract. The CSM is calculated at the inception of the contract and is released as profit as the liability is discharged. Determination of CSM amortisation and coverage units are discussed in note E.6.

The CSM is calculated as the difference between the premiums received by Rothesay and the fulfilment cash flows (the sum of BEL and RA), and any allocated acquisition cash flows. When this calculation results in a net outflow, the group of insurance contracts issued is onerous. This loss is recognised in profit or loss immediately and a loss component is established in the amount of loss recognised.

For reinsurance contracts, the CSM represents the net cost or gain on purchasing reinsurance based on the net outflow to the reinsurer, which is calculated as the sum of the reinsurance premiums, reinsurance BEL and RA, any allocated acquisition cash flows on reinsurance, and any income recognised in profit or loss when Rothesay recognises a loss on initial recognition of an onerous group of underlying insurance contracts. A loss-recovery component is established within the remaining coverage for the income recognised from the loss recognised for the onerous group of underlying insurance contracts.

Insurance contracts subsequent measurement

Rothesay measures the carrying amount of a group of insurance contracts at each reporting date as the sum of:

- *the liability for remaining coverage which comprises the future BEL and RA cash flows that relate to services to be delivered in future periods and any remaining CSM; and*
- *the liability for incurred claims which includes unpaid incurred claims and expenses.*

Note E – Insurance contracts and reinsurance (continued)

Changes in fulfilment cash flows

The BEL and RA are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk. Changes in fulfilment cash flows are recognised as follows:

- *i) Changes relating to future services to the extent that the future BEL and RA cash flows change due to non-financial risks, e.g. because experienced longevity varies from the levels assumed or due to changes in long-term demographic assumptions, adjust the CSM;*
- *ii) Changes relating to current or past services are recognised in the insurance service result in profit or loss; and*
- *iii) The effects of the time value of money, financial risk and changes therein on estimated future cash flows are recognised as insurance finance income or expenses in the profit or loss.*

The most significant non-financial risks that Rothesay is exposed to include demographic risks (including longevity and member option risk) and expense risks, while the most material financial risks include discount rates (including those used in member option calculations) and prospective inflation risk (refer to note E.7 for the details of the key financial and non-financial risks).

Changes in the CSM

The CSM is adjusted to reflect the following at the end of each reporting period:

- *i) the effects of new contracts added to the group;*
- *ii) CSM interest accretion using discount rates determined on initial recognition ("locked-in" economic conditions);*
- *iii) CSM adjustments due to changes in non-financial assumptions impacting the fulfilment cash flows relating to future service, also calculated using locked-in economic conditions;*
- *iv) impact of any currency exchange differences; and*
- *v) amortisation of the CSM for the services provided in the period in line with the coverage units released.*

Reinsurance contracts subsequent measurement

The carrying amount of a group of reinsurance contracts held at each reporting date is the sum of the asset/liability for remaining coverage and the asset/liability for incurred claims. The asset/liability for remaining coverage comprise of the fulfilment cash flows related to future service and any remaining CSM. The asset/liability for incurred claims comprise of the fulfilment cash flows related to future services allocated to the group of reinsurance contracts.

The reinsurance CSM is adjusted to reflect the following at the end of each reporting period:

- *i) the effect of any new contracts added to the group;*
- *ii) interest accretion using the locked-in discount rates;*
- *iii) income recognised in profit or loss in the reporting period related to losses on initial recognition of underlying contracts;*
- *iv) reversals of a loss-recovery component recognised to the extent those reversals are not changes in the fulfilment cash flows of the group of reinsurance contracts held;*
- *v) adjustments to the extent that the changes are due to changes to future service, using locked-in economic conditions;*
- *vi) impact of any currency exchange differences; and*
- *vii) CSM amortisation recognised in the profit or loss for the services received in the period in line with the coverage units released.*

Changes in the fulfilment cash flows adjust the CSM if they relate to future coverage and other future services. Changes in fulfilment cash flows related to the change in risk of non-performance by the reinsurer do not relate to future service and do not adjust the reinsurance CSM, rather the change is recognised in the profit or loss.

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

Modification and derecognition

Rothesay derecognises an insurance contract (and reinsurance contract) when:

- *the contract is extinguished – i.e. when the specified obligations in the contract expire or are discharged or cancelled; or*
- *the contract terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised.*

Pension scheme de-risking is generally a two-step process starting with a pension buy-in contract between Rothesay and the pension scheme and followed by conversion from buy-in to buy-out at which point individual contracts are issued to pension scheme members. In general, we do not consider conversion from buy-in to buy-out as a modification and derecognition event, as the terms and conditions of a buy-out are set out in the original buy-in contract and the benefits provided are unchanged. However, we assess the underlying terms and conditions of each contract to assess whether this treatment is appropriate.

When Rothesay acquires books of annuities from other insurers this is usually achieved by initially entering into a reinsurance contract between Rothesay and the insurer selling the block, followed by a Part VII transfer where the individual annuity contracts transfer from the insurer to Rothesay along with any associated reinsurance. Rothesay considers the conversion from reinsurance contracts issued into Part VII as a derecognition event as the Part VII is subject to court approval and there is a legal change in the counterparty. At the Part VII date, we derecognise the carrying amount of the CSM and set up a new CSM based on the fair value of the scheme or group at that date.

Rothesay also carries out scheme upsizes and data cleanses that lead to premium adjustments. Scheme upsizes occur when there is an increase in the scheme liabilities due to additional policyholders or additional benefits to existing policyholders. Data cleanses relate to the process required in updating the liabilities insured with respect to an individual scheme, following changes to use more recent policyholder data rather than the data used when the scheme was initially priced. We assess each scheme upsize and data cleanse premium adjustment by reviewing the terms and conditions of the original scheme contract. If the modification does not result in contract derecognition, we reassess the treatment of the changes in cash flows on a case-by-case basis.

Investment components and premium refunds

Investment components relate to amounts that are payable to policyholders in all circumstances, regardless of whether an insured event occurs. Whilst there are no distinct investment components, our insurance products do often include a non-distinct investment component which is identified at the time when incurred claims and revenue are recognised. Investment components are excluded from insurance revenue and insurance service expenses.
For immediate annuities the investment component is the guaranteed annuity payments specified in the contractual terms.

For deferred annuities that provide policyholders with a right to transfer or commute the contract during the accumulation period, Rothesay determines that these contracts do not include any investment component, because Rothesay is not required to pay any amount if the policyholder does not transfer the contract. Consequently, lump sum payments, including transfer value and pension commencement lump sum payments, are treated as premium refunds. Even though the premium refunds do not represent repayment of investment components, we disclose them together with investment components as their treatment is the same.

Note E – Insurance contracts and reinsurance (continued)

The notes in this section show insurance and reinsurance liability balances as negative numbers. All tables in note E relate to both Group and Company.

E.1 Insurance contracts issued – Analysis of liabilities for remaining coverage and incurred claims

The tables below show the roll-forward of the liability for insurance contracts issued, showing the liabilities for remaining coverage (excluding loss components) and liabilities for incurred claims.

2024	Liabilities for remaining coverage £m	Liabilities for incurred claims £m	Total £m
Insurance contract liabilities as at 1 January 2024	**(54,630)**	**—**	**(54,630)**
Insurance revenue			
Contracts under fair value approach at transition	**1,061**	**—**	**1,061**
New contracts and contracts under full retrospective approach at transition	**3,173**	**—**	**3,173**
Total insurance revenue	**4,234**	**—**	**4,234**
Insurance service expense			
Incurred claims and other incurred insurance service expenses	**—**	**(3,426)**	**(3,426)**
Amortisation of insurance acquisition cash flows	**(49)**	**—**	**(49)**
Total insurance service expense	**(49)**	**(3,426)**	**(3,475)**
Investment components and premium refunds	**470**	**(470)**	**—**
Insurance service results	**4,655**	**(3,896)**	**759**
Finance income from insurance contracts issued	**2,031**	**—**	**2,031**
Total change in profit or loss	**6,686**	**(3,896)**	**2,790**
Cash flows			
Premiums received	**(16,406)**	**—**	**(16,406)**
Claims and other expenses paid	**—**	**3,426**	**3,426**
Investment components and premium refunds	**—**	**470**	**470**
Insurance acquisition cash flows	**128**	**—**	**128**
Total cash flows	**(16,278)**	**3,896**	**(12,382)**
Insurance contract liabilities as at 31 December 2024	**(64,222)**	**—**	**(64,222)**

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.1 Insurance contracts issued – Analysis of liabilities for remaining coverage and incurred claims (continued)

2023	Liabilities for remaining coverage £m	Liabilities for incurred claims £m	Total £m
Insurance contract liabilities as at 1 January 2023	(40,971)	—	(40,971)
Insurance revenue			
Contracts under fair value approach at transition	926	—	926
New contracts and contracts under full retrospective approach at transition	2,201	—	2,201
Total insurance revenue	3,127	—	3,127
Insurance service expense			
Incurred claims and other incurred insurance service expenses	—	(2,629)	(2,629)
Amortisation of insurance acquisition cash flows	(29)	—	(29)
Total insurance service expense	(29)	(2,629)	(2,658)
Investment components and premium refunds	349	(349)	—
Insurance service results	3,447	(2,978)	469
Finance expense from insurance contracts issued	(4,380)	—	(4,380)
Total change in profit or loss	(933)	(2,978)	(3,911)
Cash flows			
Premiums received	(12,827)	—	(12,827)
Claims and other expenses paid	—	2,629	2,629
Investment components and premium refunds	—	349	349
Insurance acquisition cash flows	141	—	141
Insurance acquisition asset	(40)	—	(40)
Total cash flows	(12,726)	2,978	(9,748)
Insurance contract liabilities as at 31 December 2023	(54,630)	—	(54,630)

Note E – Insurance contracts and reinsurance (continued)

E.2 Reinsurance contracts held – Analysis of liabilities for remaining coverage and incurred claims

The table below shows the roll-forward of the net liability for reinsurance contracts held, showing the liabilities for remaining coverage (excluding loss-recovery component) and amounts recoverable on incurred claims arising on business ceded to reinsurers.

2024	Liabilities for remaining coverage £m	Asset for incurred claims £m	Total £m
Reinsurance contract liabilities as at 1 January 2024	(461)	—	(461)
Reinsurance contract assets as at 1 January 2024	216	—	216
Net reinsurance contract liabilities as at 1 January 2024	(245)	—	(245)
Allocation of reinsurance premiums paid			
Changes in the liabilities for remaining coverage	(2,608)	—	(2,608)
Amortisation of reinsurance acquisition cash flows	5	—	5
Total allocation of reinsurance premiums paid	(2,603)	—	(2,603)
Amounts recoverable from reinsurers			
Amounts recoverable for claims and other expenses incurred	—	2,545	2,545
Amortisation of reinsurance acquisition cash flows	(5)	—	(5)
Total amounts recoverable from reinsurers	(5)	2,545	2,540
Net (expense)/income from reinsurance contracts held	(2,608)	2,545	(63)
Finance expense from reinsurance contracts held	(191)	—	(191)
Total change in profit or loss	(2,799)	2,545	(254)
Cash flows			
Premiums paid	3,083	—	3,083
Amounts received	—	(2,545)	(2,545)
Acquisition cash flows	40	—	40
Total cash flows	3,123	(2,545)	578
Net reinsurance contract liabilities as at 31 December 2024	79	—	79
Reinsurance contract liabilities as at 31 December 2024	(223)	—	(223)
Reinsurance contract assets as at 31 December 2024	302	—	302

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.2 Reinsurance contracts held – Analysis of liabilities for remaining coverage and incurred claims (continued)

2023	Liabilities for remaining coverage £m	Asset for incurred claims £m	Total £m
Reinsurance contract liabilities as at 1 January 2023	(848)	—	(848)
Reinsurance contract assets as at 1 January 2023	54	—	54
Net reinsurance contract assets as at 1 January 2023	(794)	—	(794)
Allocation of reinsurance premiums paid			
Changes in the liabilities for remaining coverage	(2,175)	—	(2,175)
Amortisation of reinsurance acquisition cash flows	2	—	2
Total allocation of reinsurance premiums paid	(2,173)	—	(2,173)
Amounts recoverable from reinsurers			
Amounts recoverable for claims and other expenses incurred	—	2,126	2,126
Amortisation of reinsurance acquisition cash flows	(2)	—	(2)
Total amounts recoverable from reinsurers	(2)	2,126	2,124
Net expense from reinsurance contracts held	(2,175)	2,126	(49)
Finance income from reinsurance contracts held	391	—	391
Total change in profit or loss	(1,784)	2,126	342
Cash flows			
Premiums paid	2,273	—	2,273
Amounts received	—	(2,126)	(2,126)
Acquisition cash flows	60	—	60
Total cash flows	2,333	(2,126)	207
Net reinsurance contract liabilities as at 31 December 2023	(245)	—	(245)
Reinsurance contract liabilities as at 31 December 2023	(461)	—	(461)
Reinsurance contract assets as at 31 December 2023	216	—	216

At 31 December 2024 and 31 December 2023, Rothesay conducted an impairment review of the reinsurance contract assets and found no impairment necessary.

Note E – Insurance contracts and reinsurance (continued)

E.3 Insurance contracts issued – Analysis of the measurement components of contract balances

This reconciliation presents a roll-forward of the liability for insurance contracts issued showing estimates of the present value of future cash flows, risk adjustment and CSM for the portfolio's insurance service results during the year.

			Contractual service margin		
2024	Estimates of the present value of future cash flows £m	Risk adjustment £m	Contracts under fair value approach at transition £m	New contracts and contracts under full retrospective approach at transition £m	Total £m
Insurance contract liabilities as at 1 January 2024	**(46,324)**	**(1,695)**	**(1,199)**	**(5,412)**	**(54,630)**
Changes that relate to current services					
CSM recognised for services provided	**—**	**—**	**208**	**517**	**725**
Change in risk adjustment for the risk expired	**—**	**11**	**—**	**—**	**11**
Experience adjustments relating to insurance service expenses	**23**	**—**	**—**	**—**	**23**
Changes that relate to future services					
Contracts initially recognised during the year	**846**	**(434)**	**—**	**(412)**	**—**
Changes in estimates that adjust the CSM	**562**	**385**	**(179)**	**(768)**	**—**
Insurance service results	**1,431**	**(38)**	**29**	**(663)**	**759**
Finance income/(expense) from insurance contracts issued	**2,044**	**160**	**(26)**	**(147)**	**2,031**
Total changes in profit or loss	**3,475**	**122**	**3**	**(810)**	**2,790**
Cash flows					
Premiums received	**(16,406)**	**—**	**—**	**—**	**(16,406)**
Claims and other expenses paid	**3,426**	**—**	**—**	**—**	**3,426**
Investment components and premium refunds	**470**	**—**	**—**	**—**	**470**
Insurance acquisition cash flows	**128**	**—**	**—**	**—**	**128**
Total cash flows	**(12,382)**	**—**	**—**	**—**	**(12,382)**
Insurance contract liabilities as at 31 December 2024	**(55,231)**	**(1,573)**	**(1,196)**	**(6,222)**	**(64,222)**

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.3 Insurance contracts issued – Analysis of the measurement components of contract balances (continued)

2023	Estimates of the present value of future cash flows £m	Risk adjustment £m	Contractual service margin: Contracts under fair value approach at transition £m	Contractual service margin: New contracts and contracts under full retrospective approach at transition £m	Total £m
Insurance contract liabilities as at 1 January 2023	(34,521)	(1,512)	(773)	(4,165)	(40,971)
Changes that relate to current services					
CSM recognised for services provided	—	—	78	364	442
Change in risk adjustment for the risk expired	—	8	—	—	8
Experience adjustments relating to insurance service expenses	19	—	—	—	19
Changes that relate to future services					
Contracts initially recognised during the year	825	(447)	—	(378)	—
Changes in estimates that adjust the CSM	1,078	547	(486)	(1,139)	—
Insurance service results	1,922	108	(408)	(1,153)	469
Finance expense from insurance contracts issued	(3,977)	(291)	(18)	(94)	(4,380)
Total changes in profit or loss	(2,055)	(183)	(426)	(1,247)	(3,911)
Cash flows					
Premiums received	(12,827)	—	—	—	(12,827)
Claims and other expenses paid	2,629	—	—	—	2,629
Investment components and premium refunds	349	—	—	—	349
Insurance acquisition cash flows	141	—	—	—	141
Insurance acquisition asset	(40)	—	—	—	(40)
Total cash flows	(9,748)	—	—	—	(9,748)
Insurance contract liabilities as at 31 December 2023	(46,324)	(1,695)	(1,199)	(5,412)	(54,630)

Note E – Insurance contracts and reinsurance (continued)

E.4 Reinsurance contracts held – Analysis of the measurement components of contract balances

The tables below show the roll-forward of the net asset or liability for reinsurance contracts held, showing estimates of the present value of future cash flows, risk adjustment and CSM for reinsurance held portfolios during the year.

			Contractual service margin		
2024	Estimates of the present value of future cash flows £m	Risk adjustment £m	Contracts under fair value approach at transition £m	New contracts and contracts under full retrospective approach at transition £m	Total £m
Reinsurance contract liabilities as at 1 January 2024	(2,078)	518	477	622	(461)
Reinsurance contract assets as at 1 January 2024	(777)	673	—	320	216
Net reinsurance contract liabilities as at 1 January 2024	(2,855)	1,191	477	942	(245)
Changes that relate to current services					
CSM recognised for services received	—	—	19	(81)	(62)
Experience adjustments relating to incurred claims and other directly attributable expenses recovery	(1)	—	—	—	(1)
Changes that relate to future services					
Contracts initially recognised during the year	(367)	517	—	(150)	—
Changes in estimates that adjust the CSM	140	(416)	(191)	467	—
Net (expense)/income from reinsurance contracts held	(228)	101	(172)	236	(63)
Finance (expense)/income from reinsurance contracts held	(37)	(162)	6	2	(191)
Total changes in profit or loss	(265)	(61)	(166)	238	(254)
Cash flows					
Premiums paid	3,083	—	—	—	3,083
Amounts received	(2,545)	—	—	—	(2,545)
Acquisition cash flows	40	—	—	—	40
Total cash flows	578	—	—	—	578
Net reinsurance contract liabilities as at 31 December 2024	(2,542)	1,130	311	1,180	79
Reinsurance contract liabilities as at 31 December 2024	(1,296)	458	311	304	(223)
Reinsurance contract assets as at 31 December 2024	(1,246)	672	—	876	302

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.4 Reinsurance contracts held – Analysis of the measurement components of contract balances (continued)

2023	Estimates of the present value of future cash flows £m	Risk adjustment £m	Contractual service margin: Contracts under fair value approach at transition £m	Contractual service margin: New contracts and contracts under full retrospective approach at transition £m	Total £m
Reinsurance contract liabilities as at 1 January 2023	(2,135)	1,039	161	87	(848)
Reinsurance contract assets as at 1 January 2023	(309)	134	—	229	54
Net reinsurance contract liabilities as at 1 January 2023	(2,444)	1,173	161	316	(794)
Changes that relate to current services					
CSM recognised for services received	—	—	(17)	(26)	(43)
Change in risk adjustment for the risk expired	—	—	—	—	—
Experience adjustments relating to incurred claims and other directly attributable expenses recovery	(6)	—	—	—	(6)
Changes that relate to future services					
Contracts initially recognised during the year	(230)	418	—	(188)	—
Changes in estimates that adjust the CSM	(492)	(677)	332	837	—
Net (expense)/income from reinsurance contracts held	(728)	(259)	315	623	(49)
Finance income from reinsurance contracts held	110	277	1	3	391
Total changes in profit or loss	(618)	18	316	626	342
Cash flows					
Premiums paid	2,273	—	—	—	2,273
Amounts received	(2,126)	—	—	—	(2,126)
Acquisition cash flows	60	—	—	—	60
Total cash flows	207	—	—	—	207
Net reinsurance contract liabilities as at 31 December 2023	(2,855)	1,191	477	942	(245)
Reinsurance contract liabilities as at 31 December 2023	(2,078)	518	477	622	(461)
Reinsurance contract assets as at 31 December 2023	(777)	673	—	320	216

Note E – Insurance contracts and reinsurance (continued)

E.5 Insurance contracts issued and reinsurance held initially recognised during the year

This note presents the components of new business for insurance contracts issued and reinsurance contracts held measured at initial recognition. All groups of contracts written during the year and in 2023 are non-onerous at initial recognition and none fall into the "Contracts that have no significant possibility of becoming onerous subsequently" classification.

(a) New insurance contracts issued

	Contracts issued	
	2024 £m	2023 £m
Estimates of present value of future cash inflows	**15,658**	12,694
Estimates of present value of future cash outflows, including estimates of acquisition cash flows	**(14,812)**	(11,869)
Risk adjustment for non-financial risk	**(434)**	(447)
CSM	**(412)**	(378)
Losses recognised on initial recognition	**—**	—

(b) New reinsurance contracts

All of our longevity reinsurance agreements are unfunded, i.e. we retain the assets and pay a series of reinsurance premiums based on expected longevity and receive a series of reinsurance claim amounts based on actual experience. The contracts written in the year and in 2023 provided longevity reinsurance in relation to profitable underlying insurance contracts and therefore these reinsurance contracts held are initiated without the loss-recovery component. Contracts are split between those for which the CSM is positive (shown as "Net cost") and those for which the CSM is negative (shown as "Net gain"). During the period an existing reinsurance contract was amended and de-recognised in accordance with IFRS 17. The net cost contract shown for 2024 reflects the re-recognition of this transaction.

	New reinsurance contracts			
	2024		2023	
	Net cost £m	Net gain £m	Net cost £m	Net gain £m
Estimates of present value of future cash inflows	**3,115**	**13,963**	—	10,081
Estimates of present value of future cash outflows, including estimates of acquisition cash flows	**(3,308)**	**(14,137)**	—	(10,311)
Risk adjustment for non-financial risk	**65**	**452**	—	418
CSM	**128**	**(278)**	—	(188)
Amount included in reinsurance contract assets for the year	**—**	**—**	—	—

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.6 Contractual Service Margin recognition expectation in the profit and loss

In determining the CSM amortisation, we consider the services delivered under the contract and define the coverage units that should be used to amortise the CSM over time. The CSM is amortised in line with the release of the coverage units during the year as the services are provided to the policyholders.

The methods used to measure the coverage units for both immediate and deferred annuities require significant judgement. We define the coverage units as the quantity of benefit provided as part of the insurance service as the expected payment due to the policyholder during the period contingent on the insured event occurring (i.e. survival until the payment date). For reinsurance contracts held, the insured event is the survival of the reinsured policyholder until the payment date, with the payment being that due from the reinsurer to Rothesay under the terms of the contract (see note A.1).

For deferred annuities, the services delivered include both the insurance service and the investment return service. Rothesay uses judgement in assessing the quantity of benefits by determining the relative weighting of the benefits provided to the policyholder by these services. To determine the relative weighting of the benefits provided by insurance coverage (which represents the whole period of an immediate annuity) and investment services (provided in the deferred phase of the annuity before vesting and in any guarantee period), the coverage units across the deferred and in-payment periods are combined (or 'blended') to create a profile of expected CSM amortisation across the lifetime of the contract. The blended coverage units are calculated by appropriately weighting the expected insurance and investment return service coverage units such that by the time a deferred annuitant reaches retirement, the CSM is consistent with that of an equivalent immediate annuitant, and ensures that the relative values ascribed to the different services are consistent throughout the CSM amortisation over the lifetime of the contract.

For immediate annuities, the services delivered also include both the insurance service and the investment return service (provided during the guarantee period). The insurance services provided during the in-payment phase are the annuity cash flow payments, which are outside the guarantee period, expected to be paid out in the event of the insured event occurring (i.e. survival of the policyholders).

The following table presents the projected release of the CSM into future period maturity buckets.

2024	0–5 years £m	5–10 years £m	More than 10 years £m	Total £m
Insurance contracts issued	**2,033**	**1,539**	**3,846**	**7,418**
Reinsurance contracts held	**(407)**	**(350)**	**(734)**	**(1,491)**
Net CSM release	**1,626**	**1,189**	**3,112**	**5,927**

2023	0–5 years £m	5–10 years £m	More than 10 years £m	Total £m
Insurance contracts issued	1,735	1,340	3,536	6,611
Reinsurance contracts held	(390)	(336)	(693)	(1,419)
Net CSM release	1,345	1,004	2,843	5,192

Note E – Insurance contracts and reinsurance (continued)

E.7 Significant judgements and estimates in determining the value of fulfilment cash flows

The fulfilment cash flows include estimates of future cash flows, adjusted to reflect the time value of money, and a risk adjustment for non-financial risk (as described in note E.7(f)).

Estimate of future cash flows

In estimating future cash flows, we incorporate all reasonable and supportable information that is available without undue cost or effort at the reporting date. The estimates of future cash flows reflect our view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market prices. In estimating the future cash flows, we determine the cash flows to be included and how these are derived, and the boundary of insurance contracts.

Cash flows within the boundary of an insurance or reinsurance contract are those that relate directly to the fulfilment of the contract, which include:

a) Policyholder premiums including premium adjustments;
b) Policyholder claims and benefit payments, including annuity payments, death benefit lump sums, pension commencement lump sums, guarantee period cash flows and transfer value lump sums;
c) Insurance acquisition cash flows from writing new business; and
d) Other costs and expenses which relate to directly fulfilling the obligations within the contract such as claims handling costs, policy administration and maintenance costs, premium taxes, allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts, investment management expenses to the extent that they enhance benefits from insurance coverage, and any other costs that may be charged specifically to the policyholder under the terms of the contract.

In determining the best estimate cash flows, we use observable market variables (or economic variables) and non-market variables (or demographic variables). Estimates of economic variables are consistent with observable market prices, while demographic variables reflect all reasonable and supportable evidence available without undue cost or effort. Below are the key economic and demographic variables or assumptions with the greatest impact on Rothesay's insurance and reinsurance contract liability and asset valuations under IFRS 17.

(a) Mortality assumptions

Best estimate mortality assumptions are determined separately for each insurance contract (with consistent assumptions used when valuing reinsurance contracts). The resulting assumptions are equivalent to using the base mortality assumptions set out in the table below:

	2024		2023	
	Pensions originated	Insurance originated	Pensions originated	Insurance originated
Males	**106.1% S3PMA**	**103.4% S3PMA**	105.9% S3PMA	101.1% S3PMA
Females	**106.1% S3PFA**	**103.4% S3PFA**	105.9% S3PFA	101.1% S3PFA

The change over 2024 reflected the inclusion of new business and differences from expected mortality in recent years. For pension scheme originated business, ultimate mortality has been used in all cases. For insurance originated business, the stated base mortality basis incorporates the effect of selection adjustments for relevant policies.

Recent mortality experience is analysed annually for each pension scheme and for insurance originated business. The last review was carried out during 2024. The best estimate base mortality assumptions used in the valuation are based on this actual mortality experience. Mortality experience has been compared to expected levels with allowance for population level experience, hence heavy experience due to the COVID-19 pandemic has not been projected indefinitely. Mortality assumptions are generally set with reference to a Rothesay-specific suite of

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.7 Significant judgements and estimates in determining the value of fulfilment cash flows (continued)

(a) Mortality assumptions (continued)

mortality tables. For the purpose of our reporting disclosures, these have been expressed as a single adjustment equivalent to the CMI S3 series of mortality tables drawn up by the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries. The S3 tables are based on industry-wide experience. For the S3 tables, past mortality improvements are applied assuming the base mortality rates are as at 2013.

Mortality improvements used to roll base tables forward to the current date use an advanced calibration of the CMI 2023 model with limited period smoothing and including 2020 to 2023 experience in order to represent realised population mortality improvements. This is allowed for in the base table and mortality improvement equivalents shown in the preceding/proceeding tables.

Allowance is made for future improvements in annuitant mortality with reference to statistical analysis of historical rates of mortality improvements, expert judgement of future changes in mortality improvements, industry benchmarking and reinsurance pricing. During 2024, mortality improvement assumptions were updated to reflect recent mortality improvements, including adoption of the CMI 2023 improvement model. The CMI 2023 model places no weight on 2020 or 2021 data, and limited weight on 2022 and 2023 data, which significantly reduces the impact of COVID-19 on our improvement projections. For both 2024 and 2023, an advanced calibration of the model has been used.

The chosen long-term improvement rate assumption varies by age using a bespoke calibration that tapers non-linearly from age 70 to 0% at age 120. The long-term rates in the table below are expressed as core CMI model long-term rates and are equivalent on a present value basis to the actual long-term rate adopted. The bespoke calibration of the best estimate long-term improvement rates remain unchanged from 2023, however due to the addition of new business the single equivalent long-term improvement rate has increased slightly. The assumed initial rates of improvements are unchanged for 31 December 2024. The initial adjustment parameter ("A" parameter) has not been adopted, with adjustment to the initial rate of mortality improvements to allow for socio economic effects 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)	
	2024	2023
Males	**CMI_2023*_M[1.8%; Sκ=7.6]**	CMI_2022*_M[1.7%; Sκ=7.4]
Females	**CMI_2023*_F[1.8%; Sκ=7.6]**	CMI_2022*_F[1.7%; Sκ=7.4]

* Calibration ages 20-90.

The impact of the assumption changes can be seen through the changes in estimates that adjust the CSM in notes E3 and E4. These estimates are shown on a locked-in rate basis. Due to the significant increase in interest rates since many of the schemes were written, a material offset is included through Insurance Finance Expense reflecting the impacts being significantly smaller when calculating the change in present value of future cash flows and risk adjustment using current interest rates.

Note E – Insurance contracts and reinsurance (continued)

E.7 Significant judgements and estimates in determining the value of fulfilment cash flows (continued)

(b) Discount rates

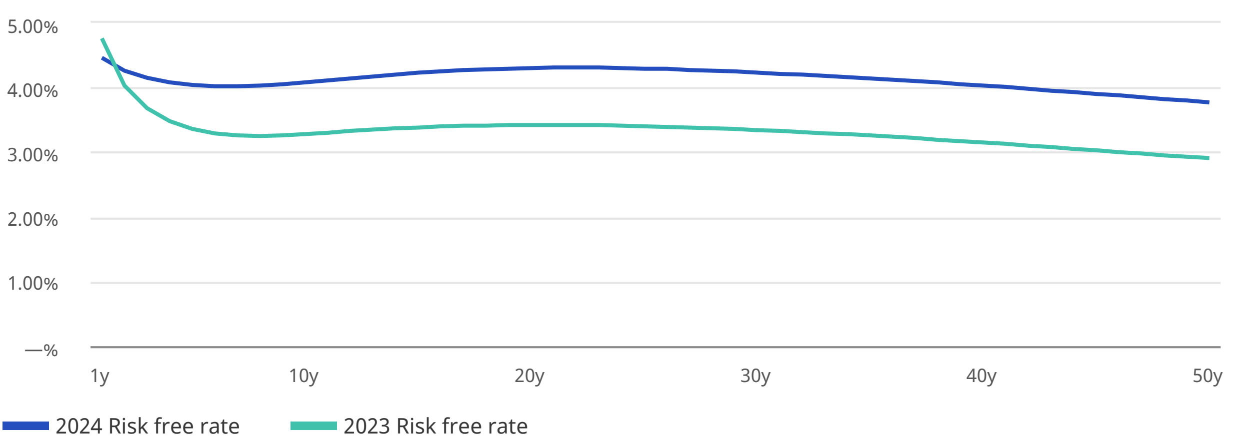
Under IFRS 17, the discount rate used must reflect the characteristics of the liabilities both in terms of timing and liquidity. The rate can be determined using either a bottom-up or a top-down approach. Under a bottom-up approach the discount rate is based on a liquid risk-free yield curve and then an addition is made to reflect the differences between the liquidity characteristics of the financial instruments that underlie the rates observed in the market and the liquidity characteristics of the insurance contracts. Rothesay uses judgement to assess liquidity characteristics of the liability cash flows. Where the asset cash flows do not perfectly match the liability cash flows a reinvestment assumption is assumed for the rate at which surplus asset cash flows within the asset model are reinvested. The approach to setting the assumed reinvestment rate was updated during 2024. Under a top-down approach the discount rate is based on a yield curve that reflects the current market rates of return of a reference portfolio of assets adjusted to eliminate any factors that are not relevant to the insurance contracts, including credit risk. The reference portfolio comprises a mix of assets that Rothesay owns or expects to buy backing insurance liabilities, such as sovereign bonds, corporate bonds, infrastructure and secure illiquid assets, which in aggregate closely match the cash flow profile of the liabilities. As such it is materially equivalent, and similar in composition to the total portfolio owned by Rothesay as detailed in note D.

We apply separate discount rates to value our insurance contracts and our longevity swap reinsurance contracts.

- For insurance contracts, we use a top-down approach to derive the discount curve based on the market consistent rate of return on a reference portfolio of assets appropriate to back the liabilities. In determining the rate of return on the assets in the reference portfolio, a deduction is made to reflect retained risks, i.e. credit default risk and property price risk.
- For collateralised longevity swap reinsurance contracts, we use a bottom-up approach which reflects the overall higher liquidity of assets cash flows which can be posted as collateral under the relevant contracts.

We use discount rates to measure the BEL and RA and to determine the interest to accrete on the CSM, to measure the impact of adjustments to the CSM, and to derive the amortisation profile for CSM recognised during the year. The locked-in rates used for the CSM calculations for insurance and reinsurance contracts are in line with the discount rates used to discount the projected BEL and RA at initial recognition.

The table below summarises the overall weighted average discount rate, and spread above the risk-free curve (SONIA), for determining the BEL and RA for insurance contracts issued and reinsurance contracts held. For disclosure purposes the full yield curves have been converted into a spread over the risk free rate.



	2024 bps	2023 bps
Risk-free rate	**409**	330
Spread above risk-free rate	**137**	141
Aggregate discount rate	**546**	471

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.7 Significant judgements and estimates in determining the value of fulfilment cash flows (continued)

(c) Other economic assumptions

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

(d) Expense assumptions

Rothesay includes estimates of future expenses relating to fulfilment of contracts within the scope of IFRS 17 in the measurement of insurance contracts. These expenses include those attributable to the groups of contracts, which include an allocation of fixed and variable overheads. The allowance made for future expenses was updated at the end of 2024 following the regular review of allowances compared to total costs incurred by Rothesay during 2024 and projected 2025 expenses.

The insurance contract liabilities future cash flows include the projected expenses payable covering administration agreements, long-term business overhead expenses and investment management expenses. For disclosure purposes these have been expressed as an amount per policy. The average per policy allowance is £68 per policy per annum (2023: £63 per policy per annum). Additional allowances are made for short-term project costs.

Within these expense provisions, an allowance for future expense inflation has been made to cover the impact of both salary and price inflation. Where applicable, the future rate of expense inflation is assumed to be RPI (as implied by the RPI swap curve) for maintenance expenses, with an additional 0.25% p.a. on some expenses (2023: 0.25% p.a. on some expenses).

(e) Risk adjustment (RA)

The RA reflects the compensation that Rothesay requires for bearing the non-financial uncertainty in the liabilities. The RA is an explicit measurement of the non-financial risks based on Rothesay's view of the economic burden imposed by the non-financial risks associated with the insurance contracts.

In determining the RA, we reflect this compensation by using the provision for adverse deviation approach (the PAD approach), under which we apply margins to the best estimates for demographic and expense risks. Allowances are also made for directly attributable operational risk and diversification between these risk factors.

The key risk factors considered in the RA for insurance contracts and the approach to calculating these risks include:

- Longevity/mortality risk margins are applied to the best estimate assumptions which are set based on quotes obtained for longevity reinsurance pricing, which represents the market price of longevity risk, which Rothesay considers an appropriate compensation for this risk.
- Spouse ratio/financial dependant risk margins are applied to the best estimate assumption used, which Rothesay considers an appropriate compensation for this risk.
- Expense risk, including both level and expense inflation risk. Expense level risk corresponds to the risk of an immediate and permanent change in the reserved expense levels, and expense inflation risk corresponds to the risk that the expenses increase in the future at a different rate to that assumed in the best estimate reserves. A fixed percentage increase over the best estimate assumptions is used for expense risk and expense inflation. Rothesay considers expense inflation based on an index as a financial risk, but any growth assumption basis above the index is considered a non-financial risk which is considered in the risk adjustment.

Note E – Insurance contracts and reinsurance (continued)

E.7 Significant judgements and estimates in determining the value of fulfilment cash flows (continued)

(e) Risk adjustment (RA) (continued)

The calibration of these parameters is in line with the calibration of the underlying best estimate assumptions for these risk factors which is typically annually. The impact of the assumption changes can be seen through the changes in estimates that adjust the CSM in notes E3 and E4. These estimates are shown on a locked-in rate basis. Due to the significant increase in interest rates since many of the schemes were written, a material offset is included through Insurance Finance Expense, reflecting the impacts being significantly smaller when calculating the change in risk adjustment using current interest rates.

Allowance in the RA is also made for less significant risk factors such as risk of data error and impact of the timing of retirement. For reinsurance contracts held, the risk factors considered in determining the risk adjustment include the longevity/mortality risk and spouse/financial dependant risk. A consistent technique is applied to both insurance and reinsurance contracts, with the RA related to reinsurance reflecting the marginal change in RA as a result of transacting reinsurance contracts. Changes in RA are taken through profit and loss, rather than other comprehensive income.

We estimate that the calculated RA corresponds to a confidence level as follows:

Net of reinsurance	2024	2023
Confidence level – 1 year basis	**90%**	91%
Confidence level – ultimate basis	**63%**	65%

The confidence level on an ultimate basis is derived by comparing the value of the RA to the relevant one year, 1-in-200 Solvency II SCR stresses on an IFRS 17 basis, projected for the lifetime of the liabilities. Confidence levels may vary from period to period due to changes in economic conditions or changes in the risk profile.

(f) Timing of cash flows

The table below shows the estimates of the present value of future cash flows of the insurance contract liabilities and net reinsurance contract liabilities that are expected to arise during each year.

As noted in the segmental analysis and level of aggregation description for Note E, reinsurance contracts are managed as a single portfolio and as such Net reinsurance liabilities are shown below, which includes reinsurance contract assets.

	2024							
	0–1 years £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	6 to 10 years £m	More than 10 years £m	Total £m
Insurance contract liabilities	**(3,939)**	**(3,724)**	**(3,557)**	**(3,376)**	**(3,214)**	**(13,395)**	**(24,026)**	**(55,231)**
Net reinsurance contract liabilities	**(141)**	**(135)**	**(132)**	**(130)**	**(129)**	**(604)**	**(1,271)**	**(2,542)**

	2023							
	0–1 years £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	6 to 10 years £m	More than 10 years £m	Total £m
Insurance contract liabilities	(2,824)	(2,990)	(2,935)	(2,833)	(2,707)	(11,284)	(20,751)	(46,324)
Net reinsurance contract liabilities	(129)	(124)	(124)	(123)	(122)	(643)	(1,590)	(2,855)

There are no amounts payable on demand as at 31 December 2024 (2023: £nil).

For deferred annuities, the services Rothesay delivers include both insurance service and investment return service. Rothesay exercises judgement in assessing the quantity of benefits by determining the relative weighting of the benefits provided to the policyholder by each of these services (see note E.6 for further details).

Notes to the financial statements continued

Note E – Insurance contracts and reinsurance (continued)

E.7 Significant judgements and estimates in determining the value of fulfilment cash flows (continued)

(g) Credit risk analysis

Long-term business is ceded to reinsurers under collateralised contracts to transfer part of the insurance risk associated with the underlying insurance contracts. The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of the reinsurance company.

At 31 December 2024, the maximum exposure to credit risk arising from reinsurance contract assets prior to allowance for collateral is £178m (2023: £91m). The credit quality of reinsurance contract assets include £141m of AA and £37m of A (2023: £86m of AA and £5m of A). The ratings are generally based on the median of the ratings assigned by Standard & Poor's, Moody's and Fitch.

E.8 Sensitivity analysis

We assess the significant assumptions in measuring insurance and reinsurance contracts and provide sensitivities to the changes in the most material assumptions below. The schedule below provides an analysis of the reasonably possible movements in key assumptions that would have a material impact on adjusted operating profit **(APM)**, profit before tax (PBT) and equity, at gross and net of reinsurance. Analysis is shown separately for adjusted operating profit **(APM)** and PBT because the former excludes the impact of assumption changes on the CSM. We have assessed the key risks in our insurance contracts and have shown the sensitivities of the material risks. The analysis is based on a change in a single assumption whilst holding all other assumptions constant. The analysis assumes an instantaneous shock to the assumptions other than for the interest rate and inflation sensitivities where the impact of dynamic hedging is allowed for as market conditions change.

		Increase/(decrease) in adjusted operating profit (APM)		Increase/(decrease) in PBT		Impact on equity	
2024	Change in assumptions	Gross £m	Net £m	Gross £m	Net £m	Gross £m	Net £m
Annuitant mortality	+5% qx	843	100	(452)	(78)	(339)	(58)
Annuitant mortality	-5% qx	(888)	(103)	465	76	349	57
Interest rate	+100bps	—	—	(962)	(928)	(722)	(696)
Interest rate	-100bps	—	—	1,141	1,135	856	852
Inflation	+100bps	—	—	714	731	536	548
Inflation	-100bps	—	—	(554)	(562)	(415)	(422)
Credit spread widening	+100bps	—	—	(794)	(699)	(596)	(524)
Change in property prices	+10%	—	—	79	79	59	59
Change in property prices	-10%	—	—	(103)	(103)	(77)	(77)
Expenses	+10%	(104)	(104)	34	34	25	25

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

2023	Changes in assumptions	Increase/(decrease) in adjusted operating profit (APM) Gross £m	Increase/(decrease) in adjusted operating profit (APM) Net £m	Increase/(decrease) in PBT Gross £m	Increase/(decrease) in PBT Net £m	Impact on equity Gross £m	Impact on equity Net £m
Annuitant mortality	+5% qx	837	117	(371)	(59)	(284)	(45)
Annuitant mortality	-5% qx	(884)	(119)	374	55	286	42
Interest rate	+100bps	—	—	(931)	(853)	(712)	(653)
Interest rate	-100bps	—	—	1,158	1,097	886	839
Inflation	+100bps	—	—	562	555	430	424
Inflation	-100bps	—	—	(431)	(419)	(330)	(320)
Credit spread widening	+100bps	—	—	(427)	(329)	(327)	(252)
Change in property prices	+10%	—	—	68	67	52	52
Change in property prices	-10%	—	—	(104)	(103)	(79)	(79)
Expenses	+10%	(100)	(100)	39	39	30	30

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

The annuitant mortality sensitivity is defined in terms of a qx stress, where qx represents the probability of a life dying during the year. Given the qx stress relates to a non-economic assumption, any changes in the BEL and RA also lead to an adjustment of the CSM using locked-in economic conditions from group inception. As most historic business was incepted at a time when long-term interest rates were significantly lower than as at year end 2024, the impact of the qx stress on the CSM is larger than on the BEL and RA. This results in the impact on IFRS 17 profits being the opposite of that which might be expected (and which would be seen on other financial metrics), i.e. an increase in longevity would result in an increase in IFRS profits. This was also the case for the 2023 comparatives.

Notes to the financial statements continued

Note F – Risk and capital management

F.1 Capital management

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

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

Rothesay had sufficient capital available to meet its regulatory capital requirements at all times during the year ended 31 December 2024.

Rothesay operates under the Solvency II regime. This regime has been adapted for the UK market as part of an HM Treasury review – several reforms relating to the Risk Margin and Matching Adjustment have already been implemented, and the remainder of the planned reform came into effect at the end of 2024.

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).

Rothesay's application to use a full internal model (FIM) for the calculation of the SCR was approved by the PRA for use in 2023. The FIM means that Rothesay's bespoke models are used for calculation of all risks and ensure that the allocation of capital to investment is consistent with the risk inherent in the types of highly secured and collateralised investments which are core to Rothesay's investment strategy.

Note F – Risk and capital management (continued)

F.1 Capital management (continued)

Capital in excess of that required to meet the technical provisions is known as Own Funds. As at 31 December 2024, Own Funds for Rothesay were £9,201m (unaudited) (2023: £8,868m) made up as follows:

	2024 unaudited £m	2023 £m
Total IFRS equity	**4,316**	4,441
Liability valuation differences and other regulatory adjustments	**2,681**	2,567
Total Tier 1	**6,997**	7,008
Tier 2 debt valuation	**1,733**	1,402
Tier 3 debt valuation	**471**	458
Own Funds available to meet SCR	**9,201**	8,868
Own Funds eligible to meet SCR	**8,628**	8,558

Rothesay holds both debt and equity to optimise its capital structure and improve shareholder return. During June 2024, RLP issued £500m of GBP Tier 2 notes and $325m of USD Tier 2 notes to provide additional capital for new business. Given Rothesay's solvency position and, in particular, the size of the SCR, some capital is not currently eligible as Own Funds to meet SCR. However, as we continue to write new business, solvency capital requirements will increase and all the capital is expected to be fully eligible.

During September 2024 Rothesay repaid £400m of Tier 2 borrowings.

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.

Solvency sensitivities

The table below provides a range of sensitivities as at 31 December 2024 and comparatives as at 31 December 2023. To better reflect the long-term impacts, sensitivities have been calculated against available Own Funds rather than eligible Own Funds. The sensitivities show that Rothesay can withstand a wide range of stresses.

Unaudited	Change in assumptions	Impact on RLP coverage ratio % 2024	Impact on RLP coverage ratio % 2023
Base reported SCR coverage		**264%**	276%
Annuitant mortality	**+5% qx**	**12%**	14%
Annuitant mortality	**-5% qx**	**(13%)**	(14%)
Interest rate	**+100bps**	**16%**	23%
Interest rate	**-100bps**	**(24%)**	(28%)
Inflation	**+100bps**	**(13%)**	(21%)
Inflation	**-100bps**	**6%**	17%
Credit spread widening	**+100bps**	**9%**	5%
Property value	**-10%**	**(8%)**	(10%)
Expenses	**+10%**	**(6%)**	(5%)

Notes to the financial statements continued

Note F – Risk and capital management (continued)

F.2 Risk management and analysis

Rothesay is exposed to credit, market and liquidity risk through its financial assets and financial liabilities. Rothesay is exposed to insurance risk through its insurance liabilities and to operational risk as a result of its activities. These risks are described below and are managed in accordance with risk management policies and procedures established by Rothesay.

Climate change risk is considered within the relevant risk type, for example credit risk includes the potential impact of climate change on the creditworthiness of counterparties.

Please see pages 37 to 48 of the Strategic Report for further detail on risk management arrangements and the governance framework within Rothesay. Please refer to Rothesay's latest Climate Report for further detail on our commitments and progress towards Net Zero.

F.2.1 Credit risk

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

Management is responsible and accountable for managing credit risks within prescribed limits. Effective management of credit risk requires disciplined underwriting, accurate and timely information, strong collateral management, a high level of communication and knowledge of customers, countries, industries and products. We continue to actively monitor and manage potential downgrade risk across the investment portfolio, particularly as continued sustained inflation and uncertain central bank monetary responses may drive macro and individual counterparty weakness.

The independent Risk function, led by the CRO, has responsibility for ensuring an appropriate framework is in place for assessing and monitoring credit risk. All credit exposures are actively monitored by the Risk function, including the use of regular sector and position reviews and a number of early warning indicators, resulting in regular reporting to the investment team and key governance bodies such as the Board Risk Committee.

Risk mitigants

Rothesay manages our investments in-house which allows us to proactively manage the composition of our investment portfolio. We are able to diversify exposures across and within sectors, controlling position sizes through limits, and regular monitoring and oversight of investments. For more liquid investments, we are able to actively reduce exposure where we have credit or other concerns.

When making new investments, Rothesay considers the potential exposure to climate change risk and other sustainability factors. Where such risks are likely to be financially material over the life of the transaction then this will be considered during the internal credit rating assessment. Such considerations can also lead to investment in shorter duration assets and avoidance of risk exposure, for example when Rothesay funds the origination of residential mortgages, our lending criteria includes a specification of the type of properties that are acceptable including factors such as construction, location and environmental perils such as flood risk.

To mitigate the credit exposures on derivatives and collateralised agreement transactions, Rothesay obtains collateral from counterparties on an upfront or contingent basis. Rothesay also enters into netting agreements with counterparties that permit it to offset receivables and payables with such counterparties for transaction settlements and upon a counterparty default.

When Rothesay does not have sufficient visibility into a counterparty's financial strength, or when it believes a counterparty requires support from its parent company, Rothesay may obtain third-party guarantees of the counterparty's obligations. Rothesay also mitigates its investment and counterparty credit risk using credit derivatives.

Note F – Risk and capital management (continued)
F.2 Risk management and analysis (continued)
F.2.1 Credit risk (continued)
Credit exposures
Rothesay is exposed to credit risk from its receivables from third parties. Receivables from counterparties are generally comprised of collateralised receivables related to derivatives or collateralised agreements transactions and have minimal credit risk due to the value of the collateral received. In addition, Rothesay invests in assets that are typically highly rated, or assets where there is underlying structural security in the event of a default. These assets include supranationals, sovereign bonds, sub-sovereign bonds, covered bonds, higher education bonds, infrastructure assets, unsecured corporate bonds and secured residential lending.

Further information is provided below:

Cash and cash equivalents
Cash and cash equivalents include both interest bearing and non-interest bearing deposits and investment in money market funds. To mitigate the risk of credit loss, Rothesay diversifies its exposure and places its deposits with multiple banks.

Collateralised agreements
Collateralised agreements are reported at fair value or contractual value before consideration of collateral received on the balance sheet. Rothesay bears credit risk related to sale and repurchase agreements and securities borrowing only to the extent that cash advanced to the counterparty exceeds the value of the collateral received or charges over assets. Therefore, Rothesay's credit exposure on the transactions is significantly lower than the amounts recorded on the balance sheet. Rothesay also has credit exposure on repurchase agreements and securities loaned, which are liabilities on its consolidated statement of financial position, to the extent that the collateral pledged for these transactions exceeds the amount of cash received.

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

Notes to the financial statements continued

Note F – Risk and capital management (continued)
F.2 Risk management and analysis (continued)
F.2.1 Credit risk (continued)

	2024						
	Effects of offsetting			Related amounts not offset			
Group	Gross amounts £m	Amounts offset £m	Net amounts presented in the statement of financial position £m	Netting under master netting agreements £m	Cash collateral £m	Security collateral and charges £m	Net credit exposures £m
Derivative assets	**40,752**	**(811)**	**39,941**	**(36,419)**	**(2,072)**	**(1,439)**	**11**
Collateralised agreements and financing	**61**	**—**	**61**	**—**	**—**	**(61)**	**—**
Total	**40,813**	**(811)**	**40,002**	**(36,419)**	**(2,072)**	**(1,500)**	**11**
Derivative liabilities	**(40,906)**	**811**	**(40,095)**	**36,419**	**1,695**	**1,981**	**—**
Collateralised financing agreements	**(5,877)**	**—**	**(5,877)**	**—**	**—**	**5,871**	**(6)**
Total	**(46,783)**	**811**	**(45,972)**	**36,419**	**1,695**	**7,852**	**(6)**

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

Note F – Risk and capital management (continued)
F.2 Risk management and analysis (continued)
F.2.1 Credit risk (continued)

	2024						
	Effects of offsetting			Related amounts not offset			
Company	Gross amounts £m	Amounts offset £m	Net amounts presented in the statement of financial position £m	Netting under master netting agreements £m	Cash collateral £m	Security collateral and charges £m	Net credit exposures £m
Derivative assets	40,752	(811)	39,941	(36,419)	(2,072)	(1,439)	11
Collateralised agreements and financing	61	—	61		—	(61)	—
Total	40,813	(811)	40,002	(36,419)	(2,072)	(1,500)	11
Derivative liabilities	(40,992)	811	(40,181)	36,419	1,695	1,982	(85)
Collateralised financing agreements	(5,877)	—	(5,877)			5,871	(6)
Total	(46,869)	811	(46,058)	36,419	1,695	7,853	(91)

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

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

Rothesay has the right of offset for certain financial assets and liabilities. Netting under master netting agreements of £36,419m (2023: £29,340m) reflects the offsetting of derivative assets with liabilities for which Rothesay has a right to set off in the event of default. Cash and security collateral have been offset to the extent there are credit exposures on the balance sheet.

Notes to the financial statements continued

Note F – Risk and capital management (continued)

F.2 Risk management and analysis (continued)

F.2.1 Credit risk (continued)

Credit ratings

The table below shows Rothesay's credit exposure from financial investments (excluding derivatives), receivables and cash based on external and internal ratings, consistent with management's view of credit risk. The external rating is generally based on the median of the ratings assigned by Standard & Poor's, Moody's and Fitch. For the purpose of Solvency II, unrated assets are internally rated by Rothesay's independent Credit Risk function under a framework which has been externally validated.

Group	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	CC £m	C £m	Unrated £m	Total £m
2024	**10,963**	**28,263**	**21,417**	**11,482**	**320**	**8**	**22**	**—**	**9,168**	**81,643**
2023	8,828	22,498	18,148	9,397	175	1	—	3	8,719	67,769

Company	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	CC £m	C £m	Unrated £m	Total £m
2024	**10,658**	**28,260**	**21,402**	**11,482**	**320**	**8**	**22**	**—**	**8,924**	**81,076**
2023	8,646	22,498	18,098	9,397	175	1	—	3	8,943	67,761

We have excluded derivatives and other assets in the table in order to increase the clarity of the disclosure, as this aligns to the way in which we measure the credit risk given that the derivatives are fully collateralised. The difference between the total assets shown in the table above and the assets under management **(APM)** is:

- Derivative assets of £39,941m (2023: £33,617m); and
- Other assets of Group £1,160m, Company £1,171m (2023: Group £998m, Company £1,010m[1]); less
- Payables and financial liabilities of Group £51,976m, Company £51,420m (2023: Group £41,233m and Company £41,237m).

AAA rated assets include Government bonds, supranational bonds, sub-sovereigns, covered bonds, US not-for-profit private universities, rate reduction bonds and certificates of deposit. AA rated assets include gilts and corporate bonds. Other net credit exposures rated A and BBB include investments in regulated infrastructure assets and commercial real estate loans, as well as unsecured corporate bonds.

Unrated assets include UK and European residential mortgages that are not individually rated.

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

[1] Prior year numbers have been restated from £1,635m to £998m for Group and £1,599m to £1,010m for Company due to an overstatement.

Note F – Risk and capital management (continued)

F.2 Risk management and analysis (continued)

F.2.2 Market risk

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

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

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

Sensitivities to market risk are shown in note E.8.

Notes to the financial statements continued

Note F – Risk and capital management (continued)

F.2 Risk management and analysis (continued)

F.2.3 Liquidity risk

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

Rothesay's liquidity policy is designed to ensure the availability of sufficient funds to meet cash flow requirements on a timely basis via:

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

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

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

The following table details Rothesay's financial liabilities and assets by maturity. Cash flows arising from financial investments and liabilities have been disclosed using undiscounted expected contractual cash flows. The table excludes insurance liabilities which are included in note E.7. The table also excludes lifetime mortgage cash flows which are included in note D.1, finance lease receivables in note D.4 and leasehold cash flows which are included in note I.6.

Note F – Risk and capital management (continued)
F.2 Risk management and analysis (continued)
F.2.3 Liquidity risk (continued)

Group	2024 Less than 1 year £m	2024 1 to 5 years £m	2024 Over 5 years £m	2024 Total £m
Financial assets				
Financial investments	**17,430**	**33,007**	**152,623**	**203,060**
Accrued interest	**848**	**—**	**—**	**848**
Receivables	**3,856**	**—**	**—**	**3,856**
Cash and cash equivalents	**210**	**—**	**—**	**210**
	22,344	**33,007**	**152,623**	**207,974**
Financial liabilities				
Financial liabilities	**(5,751)**	**(15,551)**	**(50,192)**	**(71,494)**
Payables	**(5,362)**	**—**	**—**	**(5,362)**
Borrowings	**(250)**	**(1,113)**	**(1,253)**	**(2,616)**
Accruals	**(183)**	**(19)**	**—**	**(202)**
	(11,546)	**(16,683)**	**(51,445)**	**(79,674)**
Net	**10,798**	**16,324**	**101,178**	**128,300**

Group	2023 Less than 1 year £m	2023 1 to 5 years £m	2023 Over 5 years £m	2023 Total £m
Financial assets				
Financial investments	14,581	25,318	108,578	148,477
Accrued interest	677	—	—	677
Receivables	2,106	—	—	2,106
Cash and cash equivalents	233	—	—	233
	17,597	25,318	108,578	151,493
Financial liabilities				
Financial liabilities	(5,737)	(11,830)	(33,161)	(50,728)
Payables	(5,270)	(1)	—	(5,271)
Borrowings	—	(1,357)	(891)	(2,248)
Accruals	(156)	—	—	(156)
	(11,163)	(13,188)	(34,052)	(58,403)
Net	6,434	12,130	74,526	93,090

Notes to the financial statements continued

Note F – Risk and capital management (continued)
F.2 Risk management and analysis (continued)
F.2.3 Liquidity risk (continued)

Company	2024 Less than 1 year £m	2024 1 to 5 years £m	2024 Over 5 years £m	2024 Total £m
Financial assets				
Financial investments	**17,125**	**33,007**	**152,070**	**202,202**
Accrued interest	**846**	**—**	**—**	**846**
Receivables	**4,167**	**—**	**—**	**4,167**
Cash and cash equivalents	**191**	**—**	**—**	**191**
	22,329	**33,007**	**152,070**	**207,406**
Financial liabilities				
Financial liabilities	**(5,751)**	**(15,551)**	**(49,634)**	**(70,936)**
Payables	**(5,362)**	**—**	**—**	**(5,362)**
Borrowings	**(250)**	**(1,113)**	**(1,253)**	**(2,616)**
Accruals	**(183)**	**(19)**	**—**	**(202)**
	(11,546)	**(16,683)**	**(50,887)**	**(79,116)**
Net	**10,783**	**16,324**	**101,183**	**128,290**

Company	2023 Less than 1 year £m	2023 1 to 5 years £m	2023 Over 5 years £m	2023 Total £m
Financial assets				
Financial investments	14,399	25,318	108,578	148,295
Accrued interest	676	—	—	676
Receivables	2,330	—	—	2,330
Cash and cash equivalents	183	—	—	183
	17,588	25,318	108,578	151,484
Financial liabilities				
Financial liabilities	(5,737)	(11,830)	(33,161)	(50,728)
Payables	(5,274)	(1)	—	(5,275)
Borrowings	—	(1,357)	(891)	(2,248)
Accruals	(156)	—	—	(156)
	(11,167)	(13,188)	(34,052)	(58,407)
Net	6,421	12,130	74,526	93,077

Note F – Risk and capital management (continued)

F.2 Risk management and analysis (continued)

F.2.4 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes project risk and cyber risk. Rothesay manages operational risk through the development and maintenance of an effective risk management framework which ensures that a comprehensive internal control environment is in place. This is supported by regular risk and control self-assessments coordinated, challenged and reported by the second line, which allow risk levels to be measured and control enhancements to be developed in line with Rothesay's risk appetite.

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

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

Rothesay seeks to mitigate cyber risk through robust processes and controls including targeted controls assurance, threat modelling, penetration testing and employee training, and maintains ISO 27001 accreditation. Operational risk also includes the risk of conduct failure; a risk that is managed by the business and overseen by the Compliance function, Audit Committee and Customer Conduct Committee.

F.2.5 Insurance risk

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

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

As at 31 December 2024, 90% of longevity risk was reinsured (2023: 87%) **(APM)**. Risks are monitored and controlled by the Actuarial function and overseen by the Chief Actuary and the Risk function.

Concentration of insurance risk

Rothesay's geographical concentration of insurance risks is written in the United Kingdom and within its long-term insurance annuities business segment. Rothesay's insurance and reinsurance contract liabilities are denominated in GBP.

Notes to the financial statements continued

Note G – Other statement of the consolidated financial position notes
G.1 Deferred tax assets

Deferred income tax is provided using the liability method on temporary differences at the financial statement date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets/liabilities is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each financial reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the financial reporting date.

Deferred income tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income tax relates to the same taxable entity and the same taxation authority.

Deferred tax balances comprise:

Group	2024 £m	2023 £m
Total deferred tax arising from IFRS 17 application	—	700
Opening deferred tax as at 1 January 2024	**637**	—
Reversal of IFRS 17 transitional losses	**(70)**	(66)
Other temporary differences	**2**	3
Total temporary differences	**569**	637

Company	2024 £m	2023 £m
Differences between amortised cost and fair value basis	—	340
Total deferred tax arising from IFRS 17 application	—	700
Opening deferred tax as at 1 January 2024	**637**	1,040
Effect of revaluation of amortised cost basis temporary differences to 0%	—	(337)
Reversal of IFRS 17 transitional losses	**(70)**	(66)
Other temporary differences	**2**	—
Total temporary differences	**569**	637

Note G – Other statement of the consolidated financial position notes (continued)

G.1 Deferred tax assets (continued)

The movements in the deferred tax balances were as follows:

Group	2024 £m	2023 £m
Balance at 1 January relating to IFRS 17 transition	**634**	700
Balance at 1 January relating to other temporary differences	**3**	2
Opening balance as at 1 January	**637**	702
Utilisation of IFRS 17 transitional losses	**(70)**	(66)
Other movements in temporary differences	**3**	—
Current year income statement credit	**(67)**	(66)
Current year movement – Equity/OCI	**(1)**	1
Balance at 31 December relating to IFRS 17 transition	**564**	634
Balance at 31 December relating to Other temporary differences	**5**	3
Total deferred tax as at 31 December	**569**	637

Company	2024 £m	2023 £m
Balance at 1 January relating to IFRS 17 transition	**634**	700
Balance at 1 January relating to other temporary differences	**3**	340
Opening balance as at 1 January	**637**	1,040
Utilisation of IFRS 17 transitional losses	**(70)**	(66)
Effect of revaluation of amortised cost basis temporary differences to 0%	**—**	(337)
Other movements in temporary differences	**3**	(1)
Current year income statement credit	**(67)**	(404)
Current year movement – Equity/OCI	**(1)**	1
Balance at 31 December relating to IFRS 17 transition	**564**	634
Balance at 31 December relating to Other temporary differences	**5**	3
Total deferred tax as at 31 December	**569**	637

Notes to the financial statements continued

Note G – Other statement of the consolidated financial position notes (continued)

G.1 Deferred tax assets (continued)

Deferred tax assets are only recognised to the extent that, based on management's assessment, they are regarded as recoverable. Management considers it appropriate to recognise a deferred tax asset on the IFRS 17 transitional losses in light of forecast future profits and the history of profits within the Group. The recoverability of the deferred tax asset has been assessed at each reporting period based on projected future taxable profits arising from the release of CSM and RA as insurance services are provided. We also expect to write business in the future which is expected to increase the future taxable profit against which the unused tax losses can be utilised.

Other temporary differences are the result of differences between the accounting and tax basis which will reverse over time.

The Government of the United Kingdom, where the Company is incorporated, enacted the Pillar Two income taxes legislation, with effect from 1 January 2024. Under the legislation, the parent company will be required to pay, in the United Kingdom, top-up tax on profits of its subsidiaries that are taxed at an effective tax rate of less than 15%. Based on the results for the period, the Group expects to be able to rely on the transitional safe harbour rules for the year ended 31 December 2024. As such, no top-up tax has been accrued during the period.

The Group has applied the temporary exception issued by the IASB in May 2023 from the accounting requirements for deferred taxes in IAS 12. Accordingly, the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes.

Note H – Interests in subsidiaries

H.1 Investment in unconsolidated structured entities

Rothesay has interests in investments which are classified under IFRS as unconsolidated structured entities. A structured entity is an entity that has been designed so that voting or similar rights are not the dominating factor in deciding who controls the entity, such as when voting rights might relate to administrative tasks only and the relevant activities are directed by means of contractual arrangement. Structured entities include those entities that have restricted activities or a narrow and well-defined objective. These structured entities have not been consolidated as Rothesay does not have the power to affect their returns.

Rothesay has interests in unconsolidated structured entities as described below:

- investment in collective investment schemes which allows Rothesay to receive profit or income from the underlying assets held in the schemes. These are predominately large, established money market funds of which the total asset value of the funds was £468bn (2023: £348bn);
- loans granted to and notes issued by special purpose vehicles (SPVs) secured by the assets held by the SPV such as commercial or residential real estate;
- debt securities issued by SPVs secured by financial receivables; and
- loans granted to SPVs secured by financial receivables.

The value of Rothesay's interests is included within financial investments (see note D.1).

As at 31 December 2024, our total interest in such entities, reflected on Rothesay's consolidated statement of financial position and classified as financial investments held at fair value through profit or loss, was £12,545m (2023: £11,575m) for the Group and £12,240m (2023:£11,393m) for the Company. The recorded fair value represents Rothesay's maximum loss exposure to these unconsolidated structured entities. The £1bn increase in the balance was predominantly driven by new investments largely offset by the mark-to-market decrease in the value of loans secured on property.

The interest income recognised in relation to these investments was £678m (2023: £519m).

A summary of Rothesay's interest in unconsolidated structured entities is provided below and has been recognised on the consolidated statement of financial position (see note D.1):

Group	2024 £m	2023 £m
Collective investment schemes	**6,092**	4,395
Government sub-sovereign and agency obligations	**9**	23
Corporate bonds and other corporate debt	**2,410**	2,490
Loans secured on property	**4,034**	4,667
Total	**12,545**	11,575

Company	2024 £m	2023 £m
Collective investment schemes	**5,787**	4,213
Government sub-sovereign and agency obligations	**9**	23
Corporate bonds and other corporate debt	**2,410**	2,490
Loans secured on property	**4,034**	4,667
Total	**12,240**	11,393

Notes to the financial statements continued

Note H – Interests in subsidiaries (continued)

H.2 Investments in subsidiaries

The financial statements include the financial statements of Rothesay Life Plc and the subsidiaries listed in the following table. Subsidiaries are held at cost less impairment. Subsidiaries, including structured entities, that are consolidated where the Group owns less than 50% of the ordinary share capital are consolidated based on an assessment of control arising from special rights attached to the class of shares owned, loan notes held, other contractual arrangements and factors such as the purpose of the investee, the nature of its relevant activities, voting rights (including potential voting rights) and substantive and protective rights:

Company undertakings	Country of incorporation	Primary business operation	Share class	2024 £m	2023 £m	2024 % equity interest	2023 % equity interest
FCT Morisot	France	Service company	Unit	**—**	—	**—%**	—%
Lambay Capital Designated Activity Company	ROI	Service company	Ordinary	**—**	—	**—%**	—%
Rothesay Property Partnership 1 LLP	UK	Service company	Ordinary	**—**	—	**100%**	100%
LT Mortgage Financing Limited	UK	Service company	Ordinary	**6**	6	**100%**	100%
Rothesay MA No.1 Limited	UK	Service company	Ordinary	**5**	5	**100%**	100%
Rothesay MA No.3 Limited	UK	Service company	Ordinary	**2**	2	**100%**	100%
Rothesay MA No.4 Limited	UK	Service company	Ordinary	**—**	—	**100%**	100%

The above subsidiary undertakings, with the exception of FCT Morisot and Lambay Capital Designated Activity 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 Property Partnership 1 LLP was incorporated during March 2021 and has not commenced trading.

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

FCT Morisot was incorporated in France on 5 August 2024. The registered office is 92 Avenue De Wagram, Paris, 75017, France. Lambay Capital Designated Activity Company was incorporated on 13 November 2024. The registered office is Fleming Court, Dublin, D04N 4X9.

Note I – Other notes

I.1 Property, plant and equipment

Equipment is stated at cost less accumulated depreciation/amortisation and accumulated impairment losses. Depreciation is calculated on a straight-line basis over the useful life of the following classes of assets:

- *Computer equipment: 3 years*
- *Furniture and fittings: 5 years*
- *Software: 10 years*

Development expenditure on internally developed software is recognised as an asset only if Rothesay can demonstrate the technical feasibility to complete the development of the software, its intention and the availability of resources to complete the development and to use the software, and its ability to use the software to generate probable future economic benefits and to measure the expenditure reliably. Subsequent expenditure on internally developed software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as it is incurred. Amortisation of the intangible asset begins when development is complete, and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the intangible asset is tested for impairment annually.

Group and Company	Software £m	Computer equipment £m	Furniture and fittings £m	Total £m
Cost				
As at 1 January 2024	**23**	**1**	**10**	**34**
Additions	**16**	**—**	**6**	**22**
As at 31 December 2024	**39**	**1**	**16**	**56**
Accumulated depreciation				
As at 1 January 2024	**—**	**(1)**	**(6)**	**(7)**
Charge for the year	**—**	**—**	**(2)**	**(2)**
As at 31 December 2024	**—**	**(1)**	**(8)**	**(9)**
Net book value as at 31 December 2024	**39**	**—**	**8**	**47**
Cost				
As at 1 January 2023	13	—	10	23
Additions	10	1	—	11
As at 31 December 2023	23	1	10	34
Accumulated depreciation				
As at 1 January 2023	—	—	(5)	(5)
Charge for the year	—	(1)	(1)	(2)
As at 31 December 2023	—	(1)	(6)	(7)
Net book value as at 31 December 2023	23	—	4	27

At 31 December 2024 and 31 December 2023, Rothesay conducted an impairment review of the software asset not yet available for use and found no impairment necessary. The software asset capitalised relates to assets which remain under development.

I.2 Company profit and loss

The profit for the financial year of the Company was £94m (2023: £690m). As permitted by Section 408 of the Companies Act 2006, the Company's statement of comprehensive income has not been included in these financial statements.

Notes to the financial statements continued

Note I – Other notes (continued)
I.3 Share-based payments

Rothesay's remuneration policy in relation to the deferred equity award plan gives employees the choice of receiving cash or equity for vestings. For these awards, the fair value of the grant will be reassessed at each reporting period and any change charged to profit and loss.

Share-based employee awards that require future services are amortised over the relevant service period. Expected forfeitures are included in determining share-based employee compensation expenses.

During the year ended 31 December 2015, Rothesay created a stock incentive plan, known as the deferred equity award plan which provides for grants of restricted stock units (RSUs).

Rothesay issues RSUs to the employees under the deferred equity award plan, primarily in connection with year-end compensation. These RSUs vest and deliver as outlined in the applicable RSU agreements. Vesting is subject to the recipient not having left employment or having left employment as a result of death, permanent illness, redundancy or retirement (subject to Remuneration Committee approval). Delivery of the RSUs is in the form of shares or an equivalent amount of cash (subject to the approval of the Remuneration Committee). All RSUs have a future service requirement. Note that we have provided an estimate for the number of RSUs granted during the year because, although the awards have been approved in principle by the Remuneration Committee, the actual number will not be finalised until after the financial statements have been approved.

The activity related to the deferred equity award plan RSUs is set out below:

	2024 No. of RSUs	2023 No. of RSUs
Outstanding at the beginning of the year	**9,789,167**	10,815,101
Forfeited during the year	**(118,324)**	(10,659)
Vested during the year	**(5,660,921)**	(6,348,574)
Granted during the year	**8,055,628**	5,333,299
Outstanding at the end of the year	**12,065,550**	9,789,167

On 3 March 2020, the Company established a new HMRC-approved employee share plan known as the Employee Share Incentive Plan (ESIP). Under the ESIP, Rothesay offers shares to all eligible UK employees as part of year-end compensation. The rules governing withdrawal of the shares from the ESIP Trust and subsequent tax treatment are set by HMRC. They are disclosed as employee scheme shares until they are withdrawn. The ability to withdraw shares is generally subject to the recipient not having left employment before three years from grant date.

Note I – Other notes (continued)

I.3 Share-based payments (continued)

The activity related to the ESIP RSUs is set out below:

	2024 No. of RSUs	2023 No. of RSUs
Outstanding at the beginning of the year	**1,021,859**	704,709
Forfeited during the year	**(88,104)**	(53,916)
Granted during the year	**486,253**	371,066
Outstanding at the end of the year	**1,420,008**	1,021,859

The methodology for calculating the fair value of the RSUs is intended to use a valuation basis consistent with the price paid by MassMutual and GIC for Blackstone's shareholding at the end of 2020. The weighted average fair value of the RSUs at 31 December 2023 was £4.45 (31 December 2023: £4.50).

Share appreciation plan

Rothesay also holds a long-term share appreciation plan (the SARs plan) which provides for grants of cash-settled share appreciation rights (SARs). The SARs provide the right to receive the upside on a fixed proportion of an agreed value of Rothesay shares over a defined time horizon, paid out in cash, subject to achievement of returns above an agreed hurdle. The SARs were awarded for the first time in 2021 and vest and deliver as outlined in the applicable agreement. Vesting is subject to the recipient not having left employment or having left employment as a result of death, permanent illness, redundancy or retirement (subject to Remuneration Committee approval). All SARs have a future service requirement. Share appreciation rights have been granted each year since 2021.

The valuation of the SARs is based on a Black-Scholes option pricing model and uses the same methodology for valuing shares as is used for share-based payments but with adjustments for payment of dividends in the vesting period.

The weighted average fair value and assumptions used to determine the fair value of the SARs issued in 2023 is as follows:

- Weighted average fair value at grant date: £0.88
- Expected volatility: 30%
- Outstanding vesting period: three years from issue
- Risk-free interest rate: 3.62%

The weighted average fair value and assumptions used to determine the fair value of the SARs issued in 2024 is as follows:

- Weighted average fair value at grant date: £0.89
- Expected volatility: 30%
- Outstanding vesting period: three years from issue
- Risk-free interest rate: 4.16%

Notes to the financial statements continued

Note I – Other notes (continued)

I.3 Share-based payments (continued)

Expenses in relation to share-based payment schemes

The number of SARs awarded is as follows:

	2024 No. of SARs	2023 No. of SARs
Outstanding at the beginning of the year	**104,470,821**	76,693,043
Forfeited during the year	**—**	—
Vested during the year	**(26,629,680)**	—
Granted during the year	**28,089,887**	27,777,778
Outstanding at the end of the year	**105,931,028**	104,470,821

Expenses in relation to share-based payment schemes

Expenses of £50m (2023: £61m) have been charged to the profit and loss of Rothesay during the year in relation to the various share-based payment schemes.

I.4 Related parties disclosures

Ultimate holding company

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

Related party transactions

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

	2024 £m	2023 £m
Statement of comprehensive income		
Net recovery from reinsurance contracts held	**(3)**	(1)
Finance expense for reinsurance contracts held	**5**	83
Investment return	**60**	36
Finance costs	**(18)**	(18)
Operating expenses	**—**	(1)
Statement of financial position		
Financial investments	**1,250**	583
Receivables	**—**	43
Reinsurance contract liabilities	**(10)**	(10)
Reinsurance contract assets	**24**	20
Borrowings	**299**	299
Capital	**2,638**	2,463

Financial investments comprises secured loans, investments in corporate and Real Estate Investment Trust (REIT) bonds and derivatives; the counterparties and/or issuers of these investments are subject to common ownership by one of our shareholders. We have written a number of reinsurance contracts with one of our shareholders MassMutual Financial Group. All related party transactions were disclosed to and approved by the Board.

Note I – Other notes (continued)

I.4 Related parties disclosures (continued)

On 9 August 2024, the Board approved an interim dividend of 69p per share, which was paid to shareholders on 2 October 2024. On 6 July 2023, the Board also approved an interim dividend of 68p per share which was paid to RL on 2 October 2023.

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:

	2024 £m	2023 £m
Salaries, bonus and other employee benefits	**32**	30
Equity-based compensation payments	**27**	35
Pension costs	**1**	1
Total transactions	**60**	66

On 28 March 2024, members of key management personnel and their families sold 93,007 B ordinary shares to the employment benefit trust for consideration of £0.4m. On 3 April 2023, members of key management personnel and their families sold 112,560 B ordinary shares to the employment benefit trust for consideration of £0.4m.
The tables below represent transactions between RLP, its parent Rothesay Limited, its subsidiaries LTMF, RMA1 and RMA3, and other Group companies RPML, Rothesay Asset Management Australia Pty Ltd and Rothesay Asset Management North America LLC.

Transactions with RL	2024 £m	2023 £m
Statement of comprehensive income		
Interest income	**4**	3
Cost transfer	**5**	5
Statement of financial position		
Other receivables	**105**	91
Capital	**2,638**	2,463

Transactions with LT Mortgage Financing Limited	2024 £m	2023 £m
Statement of financial position		
Other receivables	**1**	—
Other payables	**—**	—
Capital	**6**	6

Transactions with Rothesay MA No.1 Limited	2024 £m	2023 £m
Statement of financial position		
Other payables	**—**	—
Capital	**5**	5

Notes to the financial statements continued

Note I – Other notes (continued)
I.4 Related parties disclosures (continued)

Transactions with Rothesay MA No.3 Limited	2024 £m	2023 £m
Statement of financial position		
Other payables	**—**	—
Capital	**2**	2

Transactions with RPML	2024 £m	2023 £m
Statement of comprehensive income		
Cost transfer	**(200)**	(203)
Statement of financial position		
Other payables	**187**	170

Transactions with Rothesay Asset Management North America LLC	2024 £m	2023 £m
Statement of comprehensive income		
Service fee	**(14)**	(11)
Statement of financial position		
Other receivables	**6**	3
Other payables	**2**	1

Transactions with Rothesay Asset Management Australia Pty Ltd	2024 £m	2023 £m
Statement of comprehensive income		
Transaction fee	**—**	(1)
Service fee	**(4)**	(3)

Transactions with LT Mortgage Financing Limited
Between 2018 and 2023, £5.9bn of lifetime mortgages were transferred from RLP to its subsidiary LT Mortgage Financing Limited (LTMF). During 2024 a further £0.7bn were transferred. Whenever lifetime mortgages were transferred, LTMF became the beneficial owner of the lifetime mortgages in exchange for the issue of loan notes. These transactions took place on an arm’s length basis using the fair value of the lifetime mortgages. Under IFRS 9, the loans cannot be derecognised from RLP as RLP effectively maintains all the risk and rewards and control of the mortgages after the securitisations through the loan notes.

Transactions with Rothesay MA No.1 Limited
During December 2018, £0.8bn of ground rent loans were transferred from RLP to its subsidiary Rothesay MA No.1 Limited (RMA1). RMA1 became the beneficial owner in the ground rent loans in exchange for the issue of loan notes. These transactions took place on an arm’s length basis using the fair value of the ground rent loans. Under IFRS 9, the loans cannot be derecognised from RLP as RLP effectively maintains all the risk and rewards and control of the loans after the securitisations through the loan notes.

Note I – Other notes (continued)

I.4 Related parties disclosures (continued)

Transactions with Rothesay MA No.3 Limited

Between 2020 and 2023, €2.0bn 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. These transactions took place on an arm's length basis using the fair value of the Dutch mortgages. Under IFRS 9, the loans cannot be derecognised from RLP as RLP effectively maintains all the risk and rewards and control of the mortgages after the securitisations through the loan notes.

Transactions with FCT Morisot

In 2024, FCT Morisot purchased home loans which was fully funded through issuance of loan notes to RLP and external financing. Rothesay consolidates FCT Morisot as at year end.

I.5 Financial commitments and contingencies

During previous years, Rothesay executed transactions to purchase partly funded bonds, forward settling bonds and fund units with a commitment for future funding. During 2024, Rothesay purchased additional partly funded bonds and forward settling bonds. Rothesay has also signed up to a number of multi-year contracts, in relation to the provision of market data and technology services. Rothesay expects to pay a further £134m in relation to these commitments (2023: £149m), £73m of this being due within 12 months of the financial reporting date (2023: £122m).

	2024 £m	2023 £m
Not later than one year	**73**	122
Later than one year and no later than five years	**43**	27
Later than five years	**18**	—
Total other commitments	**134**	149

I.6 Leases

(a) Amounts included in the statement of financial position

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

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

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

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

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

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

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

Notes to the financial statements continued

Note I – Other notes (continued)

I.6 Leases (continued)

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

Rothesay's right-of-use assets include the lease on the UK office executed in May 2019. The lease for the UK office, The Post Building, has a duration of 17 years with a break clause at 12 years which we have assumed is exercised. The incremental borrowing rate for the Group was 3.37%. During November 2023 Rothesay took over the lease of levels 3 and 4 of The Post Building, that lease has a duration of 12 years and we have used an incremental borrowing rate of 7.58%.

Right-of-use assets

Group and Company	2024 £m	2023 £m
Right-of-use asset	**48**	53
Right-of-use asset – property		
Balance at 1 January	**53**	27
Depreciation charge for the year	**(5)**	(3)
Additions	**—**	29
Closing balance at 31 December	**48**	53

Lease liabilities

Group and Company	2024 £m	2023 £m
Lease liability	**60**	68
Maturity analysis based on undiscounted liabilities		
Current liabilities		
Less than one year	**9**	10
Non-current liabilities		
One to five years	**47**	47
More than five years	**20**	29
Total undiscounted lease liabilities	**76**	86

(b) Amounts recognised in the statement of comprehensive income

Group and Company	2024 £m	2023 £m
Leasehold depreciation	**5**	4
Financing charge on lease liabilities (included in note B.4 Finance costs)	**3**	2

(c) Amounts recognised in the statement of cash flows

Group and Company	2024 £m	2023 £m
Leasehold depreciation	**5**	4
Financing charge on lease liabilities	**3**	2
Total cash outflows for leases	**9**	3

Alternative Performance Measures

As noted on page 32, 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. The calculation of each **APM** is consistent with previous periods unless stated otherwise.

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

Measure	Definition	Rationale for inclusion	Reconciliation to IFRS
New business premium	The present value of premiums paid or due to be paid on new business transacted during the year, as well as adjustments to new business premiums from prior years.	New business premiums are a key indicator of the growth of the business.	New business premium is no longer reconcilable to the IFRS financial statements since the introduction of IFRS 17. It does however correspond to the present value of future cash inflows in note E.5.(a).
Solvency capital requirement (SCR) coverage	Under Solvency II , the capital required to withstand a 1-in-200 year event.	Rothesay is a regulated entity under the Solvency II framework and therefore uses a number of APMs that are derived from Solvency II measures. Provides a measure of risk exposures of Rothesay.	It is not possible to reconcile the SCR to the IFRS Financial Statements, however further details included in note F1.
Own Funds	Available capital under the Solvency II regime. Represents the capital in excess of technical provisions.	Provides a measure of regulatory capital.	A reconciliation of Own Funds is provided in note F.1.
Longevity reinsurance percentage	The longevity percentage provides an indication of the extent to which Rothesay is protected from fluctuations in longevity through reinsurance.	Demonstrates how Rothesay has mitigated exposure to longevity fluctuations through reinsurance.	The percentage is derived by comparing the IFRS sensitivity of net insurance liabilities with the sensitivity of gross insurance liabilities (see note E.8).

Alternative Performance Measures continued

<table>
<thead>
<tr><th>Measure</th><th>Definition</th><th>Rationale for inclusion</th><th>Reconciliation to IFRS</th></tr>
</thead>
<tbody>
<tr>
<td>Assets under management</td>
<td>Derived by adjusting total assets for reinsurance, payables, derivatives, collateralised financing and deferred tax asset.</td>
<td>By netting down the derivative gross up, Rothesay provides a more meaningful value for the assets managed and a useful measure of the size of business.</td>
<td>
<table>
<tr><th></th><th>2024 £m</th><th>2023 £m</th></tr>
<tr><td>Total assets</td><td>123,615</td><td>103,237</td></tr>
<tr><td>Reinsurance assets</td><td>(302)</td><td>(216)</td></tr>
<tr><td>Payables and financial liabilities</td><td>(51,976)</td><td>(41,233)</td></tr>
<tr><td>Deferred tax asset</td><td>(569)</td><td>(637)</td></tr>
<tr><td>Total AUM</td><td>70,768</td><td>61,151</td></tr>
</table>
</td>
</tr>
<tr>
<td>New business profit</td>
<td>New business profit less the increase in best estimate liabilities and risk adjustment. After deduction of allocated acquisition expenses, this is equal to the increase in CSM as a result of new business including new reinsurance.</td>
<td>This is one of the metrics used by Rothesay when underwriting new business.</td>
<td>The new business profits and new business acquisition expenses individually cannot be reconciled directly to the IFRS Financial Statements. However, New business profit (APM) plus New business acquisition expense (APM) is equal to the increase in CSM as a result of new business including new reinsurance (see note E.5.(a) + E.5.(b)). For 2024 only net gain reinsurance contracts are disclosed in the new business profit with the residual in the performance of in-force as it reflects the re-recognition of an existing contract.
<table>
<tr><th></th><th>2024 £m</th><th>2023 £m</th></tr>
<tr><td>New business profit (APM)</td><td>886</td><td>767</td></tr>
<tr><td>New business acquisition expense (APM)</td><td>(196)</td><td>(201)</td></tr>
<tr><td>CSM added new insurance contracts (E5.(a))</td><td>(412)</td><td>(378)</td></tr>
<tr><td>CSM added new insurance contracts (E5.(b))</td><td>(278)</td><td>(188)</td></tr>
</table>
</td>
</tr>
<tr>
<td>New business acquisition expense</td>
<td>New business acquisition expenses are the expenses allocated to the execution of new business.</td>
<td>This is one of the metrics used by Rothesay when underwriting new business.</td>
<td>The new business profits and new business acquisition expenses individually cannot be reconciled directly to the IFRS Financial Statements. However, New business profit (APM) plus New business acquisition expense (APM) is equal to the increase in CSM as a result of new business including new reinsurance (see note E.5.(a) + E.5.(b)).</td>
</tr>
</tbody>
</table>

Measure	Definition	Rationale for inclusion	Reconciliation to IFRS
Performance of in-force book	This represents the profit that can be attributed to: • differences in actual investment returns compared to those assumed; • the release of the risk adjustment as the business runs off and members exercise their options; • the release of credit default allowances; • the impact of actual demographic experience versus assumptions; • the investment return on surplus assets; and • offset by non-attributable expenses from note B.3.	Our alternative allocation of profit 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.	Unable to reconcile directly to IFRS notes.
Non-economic assumption changes	The effect of non-economic assumption changes on BEL and RA net of reinsurance.	Our alternative allocation of profit 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.	Unable to reconcile to IFRS notes. (This is because the IFRS disclosures require non-economic assumptions changes to be shown in notes on a locked-in basis.)
Adjusted operating profit before tax	Operating profit before tax adjusted to reflect the way in which profits have been generated by considering the movement in assets alongside the movement in liabilities.	Included to provide a measure of operating profits which reflects how the Group is measured internally.	Unable to reconcile directly to IFRS notes.
Borrowing costs	Interest payable on borrowings.	Included to provide a measure of borrowing costs.	A subset of the finance costs shown directly in note B.4.

Alternative Performance Measures continued

<table>
<tr><th>Measure</th><th>Definition</th><th>Rationale for inclusion</th><th>Reconciliation to IFRS</th></tr>
<tr><td>Economic gains/ (losses)</td><td>Change in asset valuation due to changes in economic conditions less the effect of economic assumption changes on net insurance liabilities. Changes in economic conditions include movements in interest rates, inflation, exchange rates, credit spreads, credit default allowances, actual defaults and property prices. The release of credit default allowances over time is included in the performance of the in-force book. This item also includes the reinsurance fees from note B.3.</td><td>Our alternative allocation of profit 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.</td><td>Unable to reconcile to IFRS notes. (This is due to the requirement that IFRS disclosures have basis differences with the financing notes.)</td></tr>
<tr><td>Adjusted equity</td><td>Total equity plus CSM net of tax less the value of sterling-denominated RT1 debt.</td><td>Provides a reflection of value which aligns with the long-term value of the Group.</td><td><table>
<tr><th></th><th>2024
£m</th><th>2023
£m</th></tr>
<tr><td>IFRS equity</td><td>4,316</td><td>4,441</td></tr>
<tr><td>Sterling RT1</td><td>(793)</td><td>(793)</td></tr>
<tr><td>CSM net of tax</td><td>4,441</td><td>3,900</td></tr>
<tr><td>Adjusted equity</td><td>7,964</td><td>7,548</td></tr>
</table></td></tr>
</table>

Glossary of terms

Adjusted equity	See Alternative Performance Measures.
Adjusted operating profit before tax	See Alternative Performance Measures.
Alternative Performance Measure	Rothesay's strategy is focused on protecting the security of policyholder benefits, growth through writing value-driven new business and, ultimately, delivering sustainable shareholder value. In the opinion of the Directors, both the prescribed IFRS results and disclosures, as well as a number of Alternative Performance Measures, are necessary to fully reflect long-term value or changes to capital requirements. Rothesay therefore includes within these accounts a number of Alternative Performance Measures which focus on value generation and capital strength to reflect the performance of Rothesay.
Annuity	A series of regular payments made to an individual until their death. Payments may be indexed.
Assets under management	See Alternative Performance Measures.
Best estimate liability (BEL)	The liabilities of Rothesay calculated on a best estimate basis under Solvency II and IFRS 17, i.e. where all the assumptions made in the calculation are best estimate.
Borrowing costs	See Alternative Performance Measures.
Bulk annuity	A bulk annuity, sometimes referred to as a bulk purchase annuity, is a contract between a defined benefit pension scheme and an insurance company, whereby an insurance company insures some or all of the annuities being paid by the pension scheme.
Buy-in	Held as an asset of the pension scheme, a bulk annuity buy-in is a contract that covers all or some of the benefits for a subset of scheme members. The scheme retains responsibility for paying pensions to members but the contract protects the scheme against all risks relating to the insured benefits, for example longevity risk and inflation risk.
Buy-out	The bulk annuity buy-out is a contract that covers all of the benefits for all or a subset of scheme members. The insurer issues individual policies to members under which pensions are paid. Once all benefits are covered, the pension scheme can be wound up.
Carbon intensity	A measure of emissions that allows for comparison between entities of different size. It is measured in t CO_2e/million USD of revenue annually.
CO_2e	Carbon dioxide equivalent – greenhouse gases (GHGs) all have varying warming potentials and therefore in order to report one metric, other GHGs are converted to CO_2 equivalent.
Collateralised agreements/ investments	Loans secured on property or other collateral.
Collective investment schemes	A way of investing money alongside other investors.
Contractual service margin (CSM)	Defined within the IFRS 17 standard as unearned profit on a group of contracts that relate to future service to be provided. The CSM is included within Insurance contract liabilities.
Corporate bonds and other corporate debt	These are debt securities issued by corporations which are not guaranteed by governments.
Credit risk	The risk of loss or of adverse change in the financial situation resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors.

Glossary of terms continued

Currency translation	Gains and losses incurred when translating the overseas subsidiaries into the sterling consolidated balance sheet.
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 and the customer satisfaction survey provides a measure of the quality of the service.
Deferred annuities	Annuities or pensions due to be paid from a future date or when the policyholder reaches a specified age.
Distributable profits	A company's profits available for distribution are its accumulated realised profits.
Economic gains/(losses)	See Alternative Performance Measures.
Employee benefit trust (EBT)	A trust established to purchase and hold shares of the Company for delivery under employee share schemes.
Equity-based compensation	Share-based transactions awarded under incentive plans.
Fair value	Amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Finance costs	Represent interest payable on borrowings.
Fixed-for-term mortgages	Residential mortgages where the interest rate payable is fixed at outset for the whole term of the mortgage.
Full internal model (FIM)	Under Solvency II, insurer's own model used to calculate the solvency capital requirement in relation to particular risks approved by the PRA.
General Measurement Model (GMM)	The General Measurement Model is the standard approach to calculate/estimate liabilities for the insurance contract under IFRS 17.
Government, sub-sovereign and agency obligations	A bond issued by a country's government or corporate debt which is guaranteed by a government to repay borrowed money at a specific time.
In-force	An insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated.
Infrastructure	Investments in infrastructure such as water, energy and transportation.
Insurance acquisition cash flows	Under IFRS 17, the cash flows which have been identified as insurance acquisition cash flows are allocated to groups of insurance contracts. These cash flows include expenses associated with the origination of new business, including annual compensation for employees.
Insurance finance income or expenses	Comprises the change in the carrying amount of the group of insurance contracts arising from: (a) the effect of the time value of money and changes in the time value of money; and (b) the effect of changes in assumption that relate to financial risk.
Insurance revenue	Under IFRS 17, the amount charged for insurance coverage when it is earned rather than when it is paid.
Insurance risk	The risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.
Insurance service expenses	Under IFRS 17, the costs incurred in providing insurance services during the year.
Insurance service result	Under IFRS 17, the insurance revenue less the insurance service expense, i.e. the insurance profit made on the provision of insurance coverage.
International Financial Reporting Standards (IFRS)	Accounting standards that are applied in preparing Rothesay's consolidated financial statements.

Investment return	Comprises all interest income on financial investments at fair value through profit and loss, realised investment gains and losses and movements in unrealised gains and losses, as well as expenses directly related to investments executed during the year.
Inwards reinsurance	Reinsurance where Rothesay is acting as the reinsurer.
Liability for incurred claims (LIC)	The liability for incurred claims includes unpaid claims and expenses.
Liability for remaining coverage (LRC)	Liability for remaining coverage represents the carrying amount of a group of insurance contracts at each reporting date. The LRC comprises the future BEL and RA cash flows that relate to services to be delivered in future periods and any remaining CSM.
Lifetime mortgages	Mortgages extended to older customers (aged 55 and over) against their residential property at low loan-to-value percentage. Unlike a typical residential mortgage, no interest is paid monthly by the customer. Instead, the interest is simply added to the principal loan amount with the loan only repayable on death or entry into long-term care of the last remaining homeowner.
Limited price indexation (LPI)	LPI is a pricing index used to calculate increases in components of scheme pension payments in the UK.
Liquidity premium	An addition to the risk-free rate used when projecting investment returns and discounting cash flows on certain types of contracts where the liabilities are illiquid and have cash flows that are predictable.
Liquidity 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.
LTMF	LT Mortgage Financing Limited.
Market consistent embedded value (MCEV)	The risk-adjusted value of the in-force business, allowing for the unwind of IFRS margins and cost of capital.
Market risk	The risk of loss or of adverse change resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.
Matching adjustment	The matching adjustment, a concept in Solvency II, is broadly equivalent to the illiquidity premium that can be earned on the illiquid assets held to back illiquid liabilities.
Matching adjustment fund	A ring-fenced fund set up for Solvency II purposes. Liabilities written into the fund are discounted at a risk-free rate plus a matching adjustment derived from the assets in the fund. Such assets must meet eligibility criteria.
Mortality tables	A table which shows, for each age, what the probability is that a person of that age and gender will die before their next birthday.
Net zero	A state in which the GHGs going into the atmosphere (anthropogenic emissions) are balanced by their removal out of the atmosphere (carbon sinks/removal).
New business	New insurance contracts and reinsurance inwards sold during the year. Includes business acquired through purchase of companies.
New business acquisition expenses	See Alternative Performance Measures.

Glossary of terms continued

New business premium	See Alternative Performance Measures.
New business profit	See Alternative Performance Measures.
No negative equity guarantee (NNEG)	Lifetime mortgages provide what is known as a NNEG, which means that the mortgage repayment amount (loan principal plus interest on redemption) cannot exceed the sale proceeds of the property on which the loan is secured.
Non-attributable costs	These are operating expenses incurred in the year that cannot be directly attributable to a portfolio of insurance contracts (see note B.3).
Non-economic assumption changes	See Alternative Performance Measures.
Onerous contracts	An insurance contract is classified as onerous as at the date of its initial recognition if the sum of the fulfilment cash flows and the recognised insurance acquisition cash flows are a net outflow (i.e. there would have been a negative CSM).
Operational risk	The risk arising from inadequate or failed internal processes, personnel or systems, or from external events.
Own Funds	See 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.
Performance of in-force book	See Alternative Performance Measures.
Physical climate risk	Risks resulting from climatic events including acute and chronic impacts. Acute risks include droughts, floods and wildfires. Chronic risks include rising temperatures, sea level rise and an accelerating loss of biodiversity.
Pillar 1	Under Solvency II, represents the solvency capital requirement calculated using a standard formula or (partial) internal model.
Pillar 2	Under Solvency II, represents the required risk management principles and practices relating to the risk and capital estimates covered by Pillar 1.
Policyholders	Rothesay generally uses the term policyholder to refer to the individual immediate and deferred annuitants whose benefits are insured by Rothesay regardless of whether the insurance is provided under a bulk annuity (where the contract is with the pension scheme) or a reinsurance policy (where the contract is with the insurance company).
Provision for adverse deviation (PAD)	The provision for adverse deviation approach reflects the compensation that Rothesay requires for bearing the non-financial uncertainty in the liabilities.
Prudential Regulation Authority (PRA)	The PRA is the UK regulatory body responsible for prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
qx	qx is actuarial notation used to represent the probability of a life aged x dying during the year.
Reinsurance	Protection sold to or purchased from another insurance company.
Risk adjustment	Defined within IFRS 17 as the compensation that Rothesay requires for bearing the non-financial uncertainty in the (re)insurance contract liabilities.
Risk margin	Under Solvency II, the cost of transferring non-hedgeable risks.
RL	Rothesay Limited.

RLP	Rothesay Life Plc, the Group's regulated life company.
RMA1	Rothesay MA No.1 Limited.
RMA3	Rothesay MA No.3 Limited.
RMA4	Rothesay MA No.4 Limited.
RML	Rothesay Mortgages Limited (formerly known as Rothesay MA No.2 Limited).
RPML	Rothesay Pensions Management Limited, the Group's service company.
RSUs	Restricted share units.
S3PMA/S3PFA	S3PMA/S3PFA refer to mortality tables drawn up by the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries. These represent version 3 of the industry standard tables derived from pensioner data from self-administered pension schemes. Separate tables are utilised for males and females.
SCR coverage %	See Alternative Performance Measures.
Secured investments	Bespoke investments where very high levels of collateral have been negotiated and returns are generated through illiquidity premium.
Sk	Smoothing parameter in the CMI longevity improvement model determining the weighting on recent experience. Given recent improvements, a higher Sk than adopted by RL will generally lead to a higher initial assumed rate of mortality improvement.
Solvency capital requirement (SCR) coverage	See Alternative Performance Measures.
Solvency II	The solvency regime applicable from 1 January 2016. Under Solvency II, Rothesay is required to hold the greater of the capital required under the new Solvency II Pillar 1 framework and the capital required under Rothesay's own economic capital model Solvency II Pillar 2.
SONIA	The Sterling Overnight Index Average, abbreviated to SONIA, is the effective overnight interest rate paid by banks for unsecured transactions in the British sterling market.
Streamlined Energy and Carbon Reporting (SECR)	Reporting on the energy use, carbon emissions and emissions intensity associated with our UK operations.
Subordinated loan	A fixed interest issue or debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for added risk through higher rates of interest. Under Solvency II, subordinated debt is not treated as a liability and counts towards the coverage of the required minimum margin of solvency with limitations.
Sustainability risks	An Environmental, Social or Governance (ESG) event or impact that could cause a negative impact including financial and reputational.
Technical Provisions	The sum of the a best estimate of liabilities allowing for reinsurance inwards and a risk margin.
Third party administration (TPA) agreement	Contract with pensions administrator to process claims and payroll on behalf of Rothesay.
Transition plan	A transition plan sets out an organisation's approach for how it will align all its activities to Net Zero.

Glossary of terms continued

Transitional Solvency Relief	Applies to Solvency II and phases in the risk margin over a 16 year period and increases capital available during the transitional period.
Yield	A measure of the income received from an investment compared to the price paid for the investment. Normally expressed as a percentage.

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