

# Rothesay

Supplementary Report of the Chief Actuary of Rothesay Life Plc on the Proposed Insurance Business Transfer Scheme Relating to the Transfer of the Bulk Purchase Annuities Long-term Business of Scottish Widows Limited to Rothesay Life Plc

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# Introduction



## Background

- 1.1 The purpose of this supplementary report (“report”) is to provide an update to my initial report “Report of the Chief Actuary of Rothesay Life Plc on the Proposed Insurance Business Transfer Scheme Relating to the Transfer of the Bulk Purchase Annuities Long-term Business of Scottish Widows Limited to Rothesay Life Plc” (my “Initial Report”) dated December 2024, in order that together those reports will:
  - Describe my understanding of the proposed insurance business transfer scheme (the “Scheme”) as defined in section 105 of Part VII of The Financial Services And Markets Act 2000 (“FSMA”) relating to the transfer of the bulk purchase annuities long-term business of Scottish Widows Limited (“SWL”) to Rothesay Life Plc (“Rothesay”);
  - Explain my opinion on the implications of the proposed Scheme on the security and benefit expectations of existing Rothesay policyholders and other beneficiaries of insurance policies issued by Rothesay.
- 1.2 This report has been prepared for the Board of Directors of Rothesay in my capacity as the Chief Actuary of Rothesay. Given the subject of this report, in the first instance I will present this report to Rothesay’s Customer Conduct Committee, as well as the management-level Executive Customer Committee.
- 1.3 In this report I address the effects of the Scheme on the security and benefit expectations of the existing Rothesay policyholders. While I may make reference to or comment on the position as regards the transferring policyholders (who it is proposed will become Rothesay policyholders under the Scheme if it is approved), this is not the primary purpose of this report.
- 1.4 For the purposes of this report, I have interpreted ‘policyholders’ to include not only the individual policyholders (for instance, those issued with individual policies arising from pension scheme buy-out arrangements or those holding individual annuities acquired by Rothesay from other insurers) but also the trustee policyholders in respect of pension scheme buy-in arrangements with Rothesay and the underlying individual pension scheme beneficiaries in respect of whom the relevant buy-in liabilities relate. In addition, I have also interpreted ‘policyholders’ to include the contingent dependants of such other policyholders. As discussed in my Initial Report, Rothesay has provided longevity swap insurance to a small number of pension schemes, which is held as an investment or asset of the pension scheme, to hedge against longevity risk. While the pension scheme trustees as holders of the longevity swap insurance are policyholders, I do not consider the underlying beneficiaries of the pension scheme to be policyholders (for the purposes of this report), as unlike bulk annuity transactions these arrangements do not provide the pension scheme with an annuity or benefit payment which funds their part or all of their obligation to members under the pension scheme and these will not lead to Rothesay, in time, becoming the direct provider of the pension for the underlying beneficiaries. While I have also considered the impact of the Scheme on SWL, as a holder of a reinsurance policy from Rothesay, I do not consider the underlying beneficiaries under the reinsured SWL policies to be existing Rothesay policyholders.
- 1.5 In preparing this report, and my Initial Report, I have been in regular contact with the Independent Expert (“IE”) John Hoskin of Barnett Waddingham and his team. This is to provide information in order for the IE to consider all aspects of the proposed Scheme in detail, with a view to him providing his own, independent report on the likely effect of the Scheme on the policyholders of Rothesay and the transferring and non-transferring policyholders of SWL. Mr Hoskin produced such a report “*Scottish Widows Limited & Rothesay Life Plc, Report of the Independent Expert on the proposed Scheme to transfer certain long-term insurance business from Scottish Widows Limited to Rothesay Life Plc*” (9 December 2024) (the “Scheme Report”) and is preparing a supplementary report to provide an update on his opinions. The Prudential Regulation Authority (“PRA”) has approved Mr Hoskin as the Independent Expert

following consultation with the Financial Conduct Authority (“FCA”). Mr Hoskin’s Scheme Report is required by section 109 of FSMA as part of the procedure for gaining approval of the Scheme by the High Court of Justice of England and Wales (the “Court”).

- 1.6 While this report is addressed to the Board of Directors of Rothesay, it will also be provided to the Court, Independent Expert, the PRA and the FCA in order to assist them with their considerations in relation to the proposed Scheme.
- 1.7 I am aware of the PRA’s Statement of Policy (“The PRA’s approach to insurance business transfers”) and the FCA guidance (FG 22/1: “The FCA’s approach to the review of Part VII insurance business transfers”). I have considered the PRA Statement of Policy and the FCA guidance and where appropriate I have taken them into account in carrying out my review. For example, my interpretation of policyholder is consistent with their guidance.
- 1.8 The contents of this report should be considered together with the material information contained in the Scheme Report on the terms of the Scheme required by section 109 of FSMA. It is my intention that (unless otherwise defined in this report) defined terms used within this report should be the same as those used in the Scheme.
- 1.9 This report has been prepared for only those users listed in 1.6 above. As such this report assumes familiarity with the insurance industry in the UK, including the regulatory and legal framework under which insurance companies operate. Any other readers of this report may wish to consult relevant publicly available information relating to Rothesay, including the most recent Annual Report and Accounts and Solvency and Financial Condition Report, which can be found on the Rothesay website (Rothesay.com).
- 1.10 While this report is intended to be complete, it does not repeat certain elements of background information and therefore for any readers unfamiliar with Rothesay or the UK insurance market it is best read in conjunction with my Initial Report.
- 1.11 I note that the Chief Actuary of SWL has produced a report (and a supplementary report) which considers the impact of the Scheme on the transferring policyholders of SWL and on the non-transferring policyholders of SWL, and that the With-Profits Actuary of SWL has produced a report (and a supplementary report) which considers the impact of the Scheme on SWL’s with-profits policyholders. I have been in regular contact with the actuarial team at SWL and we have exchanged draft reports.

## **Disclosures and Reliances**

- 1.12 The following disclosures and reliances are unchanged from those discussed in my Initial Report.
- 1.13 I am a Fellow of the Institute and Faculty of Actuaries, having qualified in 2004, and hold a certificate issued by the Institute and Faculty of Actuaries to act as Chief Actuary (Life). I joined Rothesay to act as Chief Actuary in April 2018 and I have over 20 years of experience working in the UK life assurance industry.
- 1.14 I am employed by the Rothesay Group and in common with a number of employees of the Rothesay Group I have a minor equity interest in Rothesay Limited (Rothesay’s ultimate parent company) as a result of shares received as part of my remuneration. Due to a previous employment, I am a member of a defined benefit pension scheme which Rothesay insures by way of a buy-in, but I am not a direct policyholder of Rothesay. I have a mortgage and a current account with Lloyds Bank plc. I do not consider any of these to be an actual conflict of interest, and there are no other potential conflicts of interest.
- 1.15 In this report Solvency II should be understood to refer to the on-shored UK Solvency II regime.
- 1.16 In preparing this report I have had access to all relevant financial information in relation to Rothesay. In forming my conclusions, I have relied upon work carried out by other Rothesay Group employees,

which has been subject to suitable peer review where appropriate, and which I have challenged or investigated personally where material.

This report is intended to be applicable as of 29 April 2025, and much of the analysis is based on information as at 31 December 2024. While I have considered material events after this date in Section 4, if I consider it necessary to address matters which take place after this report is finalised I will provide an update to this report either by issuing a further supplementary report or a report addendum ahead of the hearing at which the Court will consider whether to sanction the proposed Scheme. Given the nature of the Scheme and the scope of this report, I consider this to be unlikely to be necessary.

### **Compliance with technical actuarial standards**

- 1.17 The Financial Reporting Council (“FRC”) sets technical standards for the members of the UK actuarial profession. This report is subject to and complies with these standards, including having received suitable peer review.
- 1.18 A full description of compliance with relevant actuarial standards is given in Section 6.

# Executive summary

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The key points of the proposed Scheme are set out below. There have been no material changes to the proposed Scheme since my Initial Report.

## Reinsurance arrangements

- 2.1 On 13 March 2024, SWL and Rothesay entered into a business transfer agreement (“BTA”) under which SWL agreed to transfer its bulk purchase annuities business (the “Transferring Business”) to Rothesay. The transfer of the business will be implemented through a Part VII transfer under FSMA, subject to Court approval.
- 2.2 As contemplated by that agreement, on 30 April 2024 SWL and Rothesay entered into a Reinsurance Agreement (the “RA”) which transferred the economic risk and reward of a material part of the Transferring Business from SWL to Rothesay, with effect from 1 January 2024 (being the risk transfer date under the RA). This is supported by associated security arrangements.
- 2.3 Therefore, SWL has reinsured a portfolio of in-payment and deferred annuities, including related residual risk policies, to Rothesay. These policies will be referred to as the “SWL Transferring Policies”, comprising approximately £5bn of Solvency II best estimate liabilities as of 31 December 2024. These policies were all reinsured to Rothesay with the intention from both parties that the Part VII transfer considered in this report would then take place, subject to Court approval. This reinsurance (and related security) arrangement between Rothesay and SWL will terminate when the Scheme takes effect.
- 2.4 The SWL Transferring Policies arise from a number of different buy-in and buy-out transactions with 37 different schemes, as described fully in my Initial Report and summarised in Section 4. These are known as Bulk Purchase Annuity (BPA) policies.
- 2.5 In addition to the BPA policies set out above, the perimeter of the Scheme includes four longevity insurance swaps with Lloyds Banking Group pension schemes, which have been reinsured with SCOR and Pacific Life Re, with SWL as the intermediation insurer carrying out calculation and operational services but where almost the entirety of the risk is passed to those reinsurers. These will be referred to as the “SWL Ambrosia Arrangements”. Under the Scheme Rothesay will replace SWL as the insurer. The SWL Ambrosia Arrangements are not reinsured to Rothesay via the RA (as the risks are already fully reinsured to SCOR and Pacific Life Re), but due to the reinsurance with SCOR and Pacific Life Re the insurer’s net liability is negligible.
- 2.6 The reinsurance under the RA is structured as funded reinsurance where a premium representing the value of the liabilities is paid by SWL to Rothesay, which is satisfied by transfer of certain agreed assets.
- 2.7 The majority of the assets have already been transferred from SWL to Rothesay as premium, and the remaining assets comprising mainly of loans (referred to as the “Funds Withheld Assets” or “FW Assets”) will transfer to Rothesay under the Scheme. Rothesay is exposed to the risk and reward of all of the assets, including the FW Assets by the terms of the RA (although the FW Assets have not yet legally transferred to Rothesay). The FW Assets have not legally transferred to Rothesay due to practical considerations. Rothesay’s obligations under the RA are collateralised, with the liquid collateral assets held in a security arrangement with a security charge in favour of SWL.
- 2.8 Under certain circumstances, which I consider are unlikely to materialise, SWL would be entitled to terminate the RA, with the termination amount determined using an agreed approach. Such termination amount is supported by the collateral assets and the FW Assets.
- 2.9 Prior to the transaction agreed with Rothesay, SWL had in place existing longevity reinsurance (“SWL Longevity Reinsurance”) with The Prudential Insurance Company of America and Swiss Re in respect of some of the SWL Transferring Policies, providing protection against adverse movements in longevity experience for some but not all of the liabilities proposed to transfer under the Scheme. These reinsurance contracts (and related security arrangements) form part of the Scheme and therefore Rothesay will replace SWL as the cedant under those arrangements once the Scheme takes



effect. Under the terms of the reinsurance between Rothesay and SWL in the RA, Rothesay is exposed to the economic effect of the SWL Longevity Reinsurance.

- 2.10 Subsequent to the entry into the RA, Rothesay has also taken out further longevity reinsurance ("Rothesay Longevity Reinsurance") in relation to the unreinsured portion of the SWL Transferring Policies. Unless the RA is terminated for a reason other than the Scheme taking effect, the Rothesay Longevity Reinsurance will remain in place.
- 2.11 In the unlikely event that the Scheme is not approved by the Court it is expected that the RA will remain in place as a long-term reinsurance unless it is terminated by a party in accordance with its terms. The Scheme not being approved by the Court does not by itself result in a termination of the RA.

## **The Scheme**

- 2.12 The Scheme requires the approval of the High Court of England and Wales to be put into effect. The Scheme Effective Date is anticipated to be 11 June 2025.
- 2.13 Under the Scheme, SWL will transfer all insurance liabilities associated with the SWL Transferring Policies, together with the associated SWL Longevity Reinsurance, the SWL Ambrosia Arrangements and all data and records required to administer the Transferring Business.
- 2.14 The Scheme will also transfer all remaining assets and liabilities (unless specifically excluded) in respect of the Transferring Business to Rothesay, including the FW Assets and other material third party contracts.
- 2.15 On the Scheme Effective Date, the security arrangement (described in paragraph 2.7) between Rothesay and SWL supporting Rothesay's obligations under the RA will be terminated, and the collateral assets released to Rothesay. As noted above, the Scheme will also effect the legal transfer of the FW Assets to Rothesay, who will be able to directly manage these assets.
- 2.16 From the Scheme Effective Date:
  - (a) any policyholders or claimants in respect of the transferred SWL Transferring Policies will become policyholders or claimants respectively of Rothesay;
  - (b) Rothesay will become the cedant facing the relevant reinsurer under the SWL Longevity Reinsurance;
  - (c) Rothesay will become the insurer in respect of the SWL Ambrosia Arrangements described in 2.5; and
  - (d) Rothesay will replace SWL in respect of any other transferring assets or transferring contracts in-scope under the Scheme, including the Aptia services agreement and the FW Assets.

## Impact of the Scheme on Rothesay

- 2.17 The RA was entered into in order to replicate the economics of transferring the SWL Transferring Policies and related assets and liabilities from SWL to Rothesay, taking into account the effect of the SWL Longevity Reinsurance. As a result the material financial effect on Rothesay came from entering into the RA and accepting the liabilities.
- 2.18 As a result of the Scheme Rothesay would have primary responsibilities in respect of the Transferring Business, including responsibility for ensuring the SWL Transferring Policies are appropriately managed and administered.
- 2.19 The current administrator of the SWL Transferring Policies, Aptia is a current administrator of some of Rothesay's policies. Following the Scheme Effective Date, Aptia will continue to administer the SWL Transferring Policies and the existing Rothesay policies. There will be no impact on the existing Rothesay policies administered by Aptia on Rothesay's behalf. Other Rothesay policies are administered by a number of different third-party administrators, and this will not change as a result of the Scheme.
- 2.20 Aptia also currently administers the SWL Ambrosia Arrangements on behalf of SWL. Following the Scheme Effective Date, these arrangements will be administered by Rothesay directly.
- 2.21 Rothesay's governance arrangements will not change as a result of the Scheme, including the way that it manages and oversees its administrators.
- 2.22 I am not aware of any other expected or potential adverse impacts on Rothesay or Rothesay's existing policyholders which would arise as a result of the Scheme.
- 2.23 Upon completion of the Scheme, the security arrangement supporting Rothesay's obligations under the RA will terminate and the assets held as security for SWL will be released to Rothesay. Additionally, the FW Assets will also legally transfer to Rothesay, with Rothesay being able to manage these assets directly. Overall, this will provide a small liquidity management benefit for Rothesay, improve Rothesay's ability to risk manage the asset portfolio supporting the SWL Transferring Policies, and provide a small reduction in operational expense for Rothesay. While positive, these impacts are small.
- 2.24 Rothesay will also have additional reinsurance contracts to manage. Rothesay has significant experience in managing reinsurance contracts of this type, and all of the reinsurer counterparties are existing Rothesay reinsurer counterparties.
- 2.25 As a result of the Scheme taking effect there is a small net positive impact for Rothesay. This comes from removing the constraints and operational overheads associated with operating the reinsurance with SWL compared to directly managing the SWL Transferring Policies, SWL Longevity Reinsurance and the assets backing the liabilities. This includes:
- removing the overheads and constraints associated with the management of the collateral assets held in the secured account charged in favour of SWL;
  - Rothesay being able to manage the FW Assets directly;
  - Rothesay being able to operate and manage the administration services as it sees fit; and
  - Rothesay being able to more efficiently manage the SWL Longevity Reinsurance in respect of the SWL Transferring Policies.

However, given that these expected benefits are small, positive and not certain in terms of amount or timing, they are not reflected in any pro-forma assessment of the impact of the Scheme.

## Summary and Opinion of the Chief Actuary

- 2.26 I have considered the potential impacts resulting from the Scheme for the existing policyholders of Rothesay. This includes consideration of all relevant communication from Rothesay's policyholders, as discussed in Section 5. My key detailed conclusions are that:

- There are no changes to the terms and conditions for policies of existing policyholders of Rothesay;
- Their administration arrangements will also be unchanged;
- The economic risk and reward relating to the SWL Transferring Policies, which will transfer to Rothesay under the Scheme, have already been reinsured to Rothesay under the RA;
- As a result, there is no material change in the regulatory solvency position of Rothesay were the Scheme to go ahead, and therefore no change in the security of benefits for existing policyholders of Rothesay.

2.27 In light of the considerations set out in this report, I have therefore concluded that:

- The security of the existing policyholders of Rothesay is not likely to be adversely affected as a result of the proposed Scheme;
- The reasonable benefit expectations of the existing policyholders of Rothesay are not likely to be adversely affected as a result of the proposed Scheme;
- The administration arrangements applicable to the existing policyholders of Rothesay are not likely to be adversely affected as a result of the proposed Scheme;
- Rothesay's communication strategy was appropriate and proportionate and was put into effect as intended; and
- In relation to the impact on Rothesay's existing policyholders, there are no features of the proposed Scheme that appear to me likely to prejudice Court approval of the Scheme.

2.28 In the remainder of this report I set out in more detail how I have arrived at these conclusions.

2.29 I also note that the IE has considered the Scheme in his Scheme Report, and concluded that<sup>1</sup>:

*"2.6.2 I am satisfied that the Scheme will have no material adverse effect on the Rothesay Existing Policyholders.*

*2.6.3 To arrive at my conclusion, I have considered the following:*

- *the impact of the Scheme on the security of the benefits of the Rothesay Existing Policyholders*
- *the impact of the Scheme on the reasonable expectations of the Rothesay Existing Policyholders, including benefit expectations, service standards, management and governance*
- *whether the proposed approach to communicating with Rothesay Existing Policyholders in relation to the Scheme is fair.*

...

*2.6.5 I have formed my opinion taking into account, amongst other things, that:*

- *The economic risk and reward of a material part of the Transferring Business have already transferred from SWL to Rothesay in accordance with the terms of the Reinsurance Agreement such that the impact of the Scheme on Rothesay's financial position is not material*
- *there will be no changes for Rothesay Existing Policyholders, as a result of the Scheme, to the way benefit amounts are calculated and paid*
- *there will be no changes for Rothesay Existing Policyholders to Rothesay's administration, management or governance arrangements as a result of the Scheme."*

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<sup>1</sup> Source: Report of the Independent Expert on the proposed Scheme to transfer certain long-term insurance business from Scottish Widows Limited to Rothesay Life Plc, 9 December 2024, extract from Section 2.6.

2.30 The IE has also produced a supplementary report which considers any relevant matters that have happened since his Scheme Report, and updates his opinions accordingly. He notes<sup>2</sup> :

“1.3.6 I confirm that, having considered the information that has become available to me, the issues that have been raised by policyholders who have objected to the Scheme and the events that have occurred since the date of my Main Report, my overall conclusions concerning the Scheme are unchanged.”

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<sup>2</sup> Source: Supplementary Report of the Independent Expert on the proposed Scheme to transfer certain long-term insurance business from Scottish Widows Limited to Rothesay Life Plc

# Significant events since 30 June 2024

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## Updates and significant events since 30 June 2024

- 3.1 The analysis in my Initial Report considered the financial position of Rothesay as at 30 June 2024. Details of any relevant significant events since that date, and my view of the impact of them for my consideration of the effect of the proposed Scheme, are set out below.
- 3.2 As discussed in my Initial Report, Rothesay's financial position is calculated on a Solvency II basis, and a number of changes to the way that these metrics were calculated for Rothesay came into effect on 31 December 2024. The impact of these changes to the regulatory regime did not have a material effect on Rothesay's solvency position.
- 3.3 A subset of the original FW Assets (as described in my Initial Report and in Section 2.7 of this report) have now been transferred to Rothesay, ahead of the Scheme Effective Date, and so are no longer FW Assets. The remaining FW Assets will be transferred under the Scheme. As Rothesay was already economically exposed to these assets and as the legal ownership was intended to transfer to Rothesay either via the Scheme or some other route, this has no material impact on Rothesay's risk profile.
- 3.4 Rothesay is open to new business and has continued to write bulk annuities in line with its business plan. In the second half of 2024 Rothesay wrote a further £6.2bn of new business taking the total for the year to £15.7bn, and has continued to write new business in 2025.
- 3.5 Rothesay paid a dividend of £361m.
- 3.6 One of Rothesay's two main shareholders, GIC, reinvested the dividend it received in 2023, and as a result GIC holds 50.2% interest and MassMutual holds 47.6% interest in Rothesay Limited. GIC and MassMutual have equal governance rights. This was reflected in the Rothesay Group structure discussed in section 3 of my Initial Report but the dividend reinvestment was not reflected in the financial position as of 30 June 2024.
- 3.7 As would be expected, there have been some minor changes to Rothesay's asset portfolio, changes to market conditions and other effects, all of which are reflected in the 31 December 2024 financial position.
- 3.8 I note that there were changes to market conditions in early April 2025 as a result of the effect of the introduction of actual and potential tariffs and other trade barriers in a number of territories. This has not had a material impact on Rothesay's financial strength.
- 3.9 In summary none of the points above have materially changed Rothesay's financial strength, and do not change any of my conclusions in relation to the effect of the Scheme on Rothesay's existing policyholders.
- 3.10 I note that Rothesay has made progress in line with its plan to accept and administer the Transferring Business, including ensuring that all operational processes are ready and that the SWL Transferring Policyholders and Rothesay's existing policyholders will receive high quality customer service in line with expectations.
- 3.11 There have been no other material events since 31 December 2024, the date at which I consider the financial impact of the Scheme on Rothesay, and I am not aware of any planned material events expected to take place between the date of this report and the planned Scheme Effective Date (11 June 2025) or subsequent to that date which would cause me to revise my opinion as to the impact of the Scheme on Rothesay's existing policyholders.

Financial position post  
transfer

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## Capital requirements for Rothesay Life Plc

- 4.1 The Solvency II requirements I described in my original report are largely unchanged. As I discussed some minor changes were due to take effect as of 31 December 2024 and they have now done so, and therefore they are reflected in the financial position set out below.
- 4.2 Rothesay's parent, Rothesay Limited, is also managed on a Solvency II basis. In line with my Initial Report, as the Rothesay Group is a simple one, and Rothesay is the only material active risk-carrying entity, I will therefore explicitly only consider Rothesay on a standalone basis although the conclusions reached hold for Rothesay Limited also.
- 4.3 Rothesay's capital management policy is unchanged and aims to maintain a solvency ratio of not less than 140% on a Solvency II regulatory capital basis. There have been no material changes to the way that Rothesay calculates its capital requirements (the SCR).
- 4.4 Under Solvency II, a firm is also obliged to consider the capital it believes that it needs in order to meet its own needs, a process known as the Own Risk and Solvency Assessment ("ORSA"). I have also considered the impact of the proposed Scheme on Rothesay's ORSA.

## Solvency II capital position

- 4.5 The Solvency II position of Rothesay before and after the proposed transfer (as if it had been effective on 31 December 2024) is set out in Table 4.1 below. As discussed in detail in my Initial Report, the policies to be transferred (other than the SWL Ambrosia Arrangements) are reinsured to Rothesay and the transaction was fully funded at the point of sale, with assets already having transferred to Rothesay (or in the case of a portion of the assets where Rothesay has accepted the economic exposure to the assets via the RA but legal ownership will transfer under the Scheme), there is no change in the solvency position of Rothesay due to the Scheme.

**Table 4.1: Solvency II financial position as at 31 December 2024 before and after the proposed transfer (£m)**

Rothesay Life Plc £m	31 December 2024 Pre-Scheme	31 December 2024 Post-Scheme
Net Assets	69,812	69,812
Net Technical Provisions	61,184	61,184
Eligible Own Funds	8,628	8,628
Solvency Capital Requirement	3,262	3,262
Surplus	5,366	5,366
SCR cover	264%	264%

- 4.6 The SWL Transferring Policies comprises best estimate liabilities of around £5bn, or around 8% of Rothesay's total liabilities, and are included in the Net Technical Provisions line above. In the Pre-Scheme position this is in respect of the reinsured benefits under the RA, and Post-Scheme this is in relation to the direct liabilities associated with the SWL Transferring Policies. Other than the SWL Ambrosia Arrangements (which are not reinsured to Rothesay via the RA (as described in 2.5) but will transfer to Rothesay under the Scheme) the Technical Provisions are the same pre- and post-Scheme. The net liability associated with the SWL Ambrosia Arrangements is negligible, because of the nature of those arrangements.



- 4.7 The values of the liabilities shown above include the use of a Matching Adjustment in the valuation of the best estimate liability as approved by the PRA in November 2015. This involves the application of a spread to risk-free discount rates reflecting the liabilities being long-term and illiquid. Rothesay also uses the Volatility Adjustment on a smaller portion of its liabilities, as approved by the PRA in November 2024.
- 4.8 The Scheme will not affect the ability of Rothesay to apply the Matching Adjustment or the Volatility Adjustment.
- 4.9 In common with many other firms in the UK, Rothesay has been given approval by the PRA to use a transitional adjustment to technical provisions (the Transitional Measure on Technical Provisions or "TMTP"). This reduces the technical provisions required in order to smooth the impact of moving to Solvency II. The Scheme will not affect the ability of Rothesay to apply this adjustment to technical provisions.
- 4.10 Rothesay's SCR is calculated using a Full Internal Model (FIM), which determines an appropriate SCR to be held directly based on Rothesay's risk profile. This is calculated to be the amount such that Rothesay can withstand a 99.5<sup>th</sup> percentile stress, over a 12-month period. The FIM methodology and calibration will not change as a result of the Scheme.
- 4.11 Following the Scheme, Rothesay will have additional responsibilities and liabilities in relation to the SWL Transferring Policies compared to simply reinsuring them, in particular primary responsibility for administering the policies. Rothesay's FIM calculation for operational risk reflects all of the operational risk associated with the SWL Transferring Policies and other transferring contracts (including the SWL Longevity Reinsurance and the SWL Ambrosia Arrangements), and there will be no change once the Scheme goes into effect. Therefore Rothesay's SCR will not change as a result of the Scheme.
- 4.12 Administration of the SWL Transferring Policies and the SWL Ambrosia Arrangements is currently being carried out by Aptia, on behalf of SWL, and the cost of this administration is covered by the RA. From the Scheme Effective Date it is proposed that the administration of the SWL Transferring Policies will continue to be carried out by Aptia, but on behalf of Rothesay (as the services contract between SWL and Aptia will transfer to Rothesay under the Scheme). The SWL Transferring Policies will continue to be administered by Aptia using the same systems and staff as that immediately before the Scheme Effective Date. Rothesay will administer the SWL Ambrosia Arrangements itself, using the in-house platform that it uses to administer similar reinsurance arrangements. Rothesay administers a large number of longevity reinsurance arrangements and has extensive experience in doing so. For the 2 residual risk policies, these do not require servicing until a claim is received, which will be considered by Rothesay in accordance with the terms of these policies. Rothesay has written similar type of residual risk policies as part of its bulk annuities business. There is not expected to be any material change in the cost of administration, nor in the risks associated with those costs, compared to those currently assumed by Rothesay as part of its reserving and capital calculations. Therefore there is not expected to be a change in either the reserves held by Rothesay for expenses or in the capital held for those risks immediately following the Scheme. It is possible that over time there would be differences in the costs associated with maintaining and administering the policies directly (including internal and external costs) compared to the costs reflected in the RA, but this is not expected to be material and are not reflected in the pro-forma position shown in Table 4.1.
- 4.13 Before the Scheme Effective Date, some of the assets backing the reinsured liabilities are being held in a custody account as collateral subject to a security charge for SWL's benefit. There are some restrictions on the types of assets which can be posted as collateral. These contractual restrictions and the security charge relating to the collateral assets will be removed after the Scheme takes effect and Rothesay will have more investment freedom to manage the assets. For assets which remain with SWL (where the economic interest was transferred to Rothesay under the RA), being the FW Assets, these will also legally transfer to Rothesay under the Scheme, following which Rothesay will have direct control over those assets. However, the Scheme will not change Rothesay's economic exposure to these assets. Further, Rothesay does not anticipate fundamentally changing the types of assets to be held immediately

following the transfer. While there may be some economic benefits to Rothesay as a result of removing these restrictions, these are not reflected in the pro-forma position shown in Table 4.1.

- 4.14 The comparative solvency coverages for Rothesay Limited as at 31 December 2024 are 261% SCR cover pre-transfer and 261% SCR cover post-transfer. These are slightly lower than the equivalent Rothesay Life Plc values primarily due to a small amount of additional non-insurance liabilities at the Rothesay Limited level. There are no impacts of the Scheme to consider at the Rothesay Limited level beyond those considered at the Rothesay level.
- 4.15 I have considered the latest financial position of Rothesay, as measured on a Solvency II basis, as of the date of this report. This reflects all new business written since 31 December 2024 and the current market conditions. This has not changed my views and conclusions in relation to the proposed scheme.
- 4.16 In summary, I do not expect the proposed transfer to have any impact on the Solvency II capital position of Rothesay, and therefore no material impact on the security of Rothesay's current policyholders.

## **Solvency II ORSA**

- 4.17 In addition to the results shown above, I have also considered the ORSA position of Rothesay before and after the proposed transfer, as if the transfer had become effective on 31 December 2024. As the material portion of liabilities associated with the SWL Transferring Policies are reinsured to Rothesay and the transaction was fully funded at the point of sale, with assets transferred to Rothesay, there is no change in the ORSA position of Rothesay due to the Scheme. It is noted that Rothesay will have additional operational responsibilities following the transfer and therefore the overall quantum of operational risk will be higher after the Scheme, but under Rothesay's ORSA all of the operational risk associated with the transferring liabilities and assets was recognised from the point that the reinsurance agreement with SWL was entered into. I am therefore comfortable that the extra risks are captured under Rothesay's ORSA and that therefore there should be no material reduction in the security of Rothesay's policyholders as a result of the Scheme.

## **Subsequent events**

- 4.18 This section sets out the events which have happened since the analysis above was performed, or which may happen between now and the anticipated Scheme Effective Date.
- 4.19 Rothesay continues to write new business, and will continue to write new business up to and beyond the date of the sanction hearing and the Scheme Effective Date. Rothesay considers that it has SCR coverage above its target operating range, and expects to use this excess capital to write further new business over time.
- 4.20 I have considered the latest financial position of Rothesay, as measured on a Solvency II basis as of the date of this report, and I have considered the reasons for the movements since the values shown in Table 4.1.
- 4.21 None of these points change the impact of the scheme on Rothesay's existing policyholders, and so do not change my conclusions.

# Impact of Scheme on existing Rothesay policyholders

5

In this section I summarise the analysis and consider the impact of the proposed Scheme on existing Rothesay policyholders, including SWL. SWL is a policyholder of Rothesay as it is the cedant under the RA. In my assessment below I have taken into account any queries or objections received from Rothesay policyholders or other stakeholders.

### **Impact on contractual terms applicable to existing Rothesay policyholders (other than SWL)**

- 5.1 There are no intended changes within the proposed Scheme to the contractual terms of any of the existing Rothesay policies.
- 5.2 The majority of the benefits payable under the existing Rothesay policies are fully defined or vary only in relation to an external data source (e.g. the level of an inflation index). Where Rothesay has some discretion over payments to be made, for example in relation to the amount paid when a deferred annuity is transferred away from Rothesay or other types of commutations, there are no changes in the approach or basis to be used as a result of the Scheme.
- 5.3 No changes are to be made to any existing collateral or security arrangements in place with existing policyholders of Rothesay.

### **Impact on security of benefits applicable to existing Rothesay policyholders**

- 5.4 As noted in Section 4 of this report, had the proposed Scheme been effective as at 31 December 2024, the capital impact to Rothesay (including the transferred-in assets and liabilities of SWL) would have been nil, and Rothesay would have continued to have capital in excess of the SCR, and in line with its capital management policy.
- 5.5 There would be negligible change in the security of benefits of existing Rothesay policyholders if the proposed Scheme were to be approved, as the reinsured SWL liabilities and associated assets are currently reflected in Rothesay's balance sheet and as such, the existing Rothesay policyholders are already exposed to the overall risks associated with the SWL Transferring Policies. The net insurance liabilities associated with the SWL Ambrosia Arrangements are negligible.
- 5.6 Costs associated with the Scheme have been and will be borne in part by Rothesay and in part by SWL. No costs will be passed on to any existing policyholders. These costs are not material in the context of Rothesay's assets and will have no impact on the security of benefits for Rothesay's policyholders. In line with Rothesay's standard practices, these costs are already reserved for and hence are allowed for in both the current and pro-forma financial positions as shown in in Table 4.1.
- 5.7 Certain policyholders of Rothesay benefit from access to the Financial Services Compensation Scheme ("FSCS"), which acts to provide a safety net should an insurance company be unable to pay claims or benefits due to policyholders. As a general statement of eligibility the FSCS covers all individuals and some businesses. The Scheme will not impact the rights of any of Rothesay's existing policyholders who are currently eligible to make a claim under the FSCS.
- 5.8 Upon completion of the Scheme, SWL will lose all security and recourse to any collateralised assets of Rothesay under the collateral/security arrangement described in section 2.7, including that the FW Assets will transfer to Rothesay. For Rothesay this will provide a liquidity management benefit and a small reduction in operational expense for Rothesay, therefore marginally improving the position for Rothesay and its policyholders compared to continuing with the reinsurance. Such benefits are not reflected in the pro-forma solvency position shown in Table 4.1. For SWL this effect is entirely as envisaged under their agreements with Rothesay and the commercial intent of the overall transaction. I am satisfied that the Scheme does not adversely affect SWL as a policyholder.
- 5.9 The liabilities which are proposed to be transferred from SWL to Rothesay under the Scheme are materially the same types of liabilities which Rothesay currently manages. Upon completion of the Scheme, Rothesay will manage its affairs as a whole and in particular consider the security of all policyholders together, with no one set of policyholders being given preference. I do not expect any

scenarios to arise where there would be a material divergence of interests between the existing Rothesay policyholders and the policyholders under the SWL Transferring Policies (who will become Rothesay policyholders) following the transfer.

### **Impact on administration applicable to existing Rothesay policyholders**

- 5.10 Rothesay outsources the majority of policyholder servicing activities and for existing Rothesay policyholders, members or dependants they will continue to be administered by the same outsourced providers, in the same way, and subject to the same service standards. After the Scheme the administration of the SWL Transferring Policies will continue to be performed by the current outsourced administration provider (Aptia) under the services agreement to be transferred to Rothesay by the Scheme. I have reviewed the plans for the migration of administration services and progress against those plans and I am satisfied that whether the Scheme is put into effect or not there would be no material impact on the administration arrangements for Rothesay's existing policyholders.
- 5.11 Some of Rothesay's existing policyholders are currently administered by Aptia. They will not be impacted by the Scheme because the Aptia team that currently administers the existing Rothesay policyholders and the Aptia team that currently administers the SWL Transferring Policies are different teams. Aptia already have sufficient resources to administer both sets of policies. There will be no change to the administration of the existing Rothesay policyholders.
- 5.12 Rothesay currently insures the benefits of over 1,000,000 individuals, including those insured indirectly through a Buy-in arrangement with a pension scheme. This includes the benefits of the c34,000 individuals that Rothesay reinsures currently through the RA, and which will transfer under the Scheme. Having discussed the plans with the relevant individuals at Rothesay, including Rothesay's Chief Operating Officer, I am confident that Rothesay has sufficient resources to fully accept and on-board this business.
- 5.13 Rothesay will not change the way that it manages or oversees any of its existing policyholders as a result of the Scheme.
- 5.14 Therefore I am content that there are no administrative changes that will adversely affect existing Rothesay policyholders as a result of the proposed Scheme.

### **Impact on other parties**

- 5.15 While they are not strictly existing Rothesay policyholders, I consider it appropriate to determine whether the Scheme will have an adverse impact on a number of other parties with current relationships with Rothesay.
- 5.16 The SWL Transferring Policies and the SWL Ambrosia Arrangements are currently administered by Aptia, on behalf of SWL. Aptia is also currently an outsourced administrator for some of Rothesay's existing policies, which is provided by a dedicated Aptia team and on a different platform, which will continue to be the case following the Scheme. Following the Scheme, the arrangement between SWL and Aptia will become an arrangement between Rothesay and Aptia, and Aptia will continue to administer the SWL Transferring Policies. The administration of the Transferring Policies will continue to be provided by Aptia using the same platform and staff as that immediately prior to the Scheme. I am content that there is no adverse impact on Aptia.
- 5.17 As part of the Scheme the SWL Longevity Reinsurance arrangements and the reinsurance contracts under the SWL Ambrosia Arrangements described in 2.5 will transfer to Rothesay. These are all reinsurance contracts with reinsurers that Rothesay has existing and long-standing commercial relationships with. The terms of Rothesay's existing reinsurance contracts with these reinsurers will not change as a result of the Scheme. Rothesay has extensive experience with administering a large number of similar longevity reinsurance arrangements. I am content that there is no adverse impact on these reinsurers.

5.18 Rothesay has put in place reinsurance in respect of the unreinsured portion of the SWL Transferring Policies, in order to ensure that the retained longevity risk is in line with its risk appetite. Pre-Scheme this arrangement technically is a “retrocession” agreement, as Rothesay is retroceding the risks that it has accepted via the reinsurance provided under the RA. Following the Scheme, this arrangement will automatically become a standard longevity swap reinsurance agreement, with Rothesay as cedant. This is a slightly simpler arrangement, therefore there is a small benefit for both Rothesay and the reinsurer under the Rothesay Longevity Reinsurance in the event that the Scheme goes into effect.

5.19 Therefore I am content that there is no adverse impact from the Scheme on these other relevant parties.

## **Consumer Duty**

5.20 Consumer Duty came into force on 31st July 2023 for “open” products and services. “Closed” products and services were subject to a later implementation date of 31st July 2024.

5.21 The Duty’s key principle is that firms and the people who run and work in them must act to deliver good outcomes for retail customers. For Rothesay, that means retail policyholders (in payment and deferred) and the ultimate UK consumers in mortgage arrangements that Rothesay funds.

5.22 Other than noting that the SWL Transferring Policies will become Rothesay policies and they will become in scope for Rothesay’s Consumer Duty responsibilities, the Scheme will not change Rothesay’s responsibilities in relation to Consumer Duty, and there will be no change to the way Rothesay discharges those responsibilities.

## **Policyholder communications**

5.23 I discussed in my Initial Report Rothesay’s intention to apply to the Court to seek a waiver from the general obligation under FSMA to communicate directly with its policyholders about the Scheme, on the grounds that:

- (a) There is no impact on the policy terms, security or administration arrangements in respect of Rothesay’s existing policyholders
- (b) It would be expensive to write to all of Rothesay’s existing policyholders and there would be limited utility, given point (a)
- (c) There is scope for confusion given that Rothesay would not usually write to policyholders, and policyholders may be concerned or misunderstand the reason for the communication.

5.24 Rothesay made such an application, which was considered by the Court on 16 December 2024 and duly granted.

5.25 As an alternative to directly communicating with its policyholders, Rothesay has made information about the Scheme available via other channels, including advertising the Scheme generally and putting extensive information relating to the Scheme on its website. I reviewed the communication strategy and these communications before they were published, and I was satisfied with the approach taken, and I confirm that they were put into effect.

## **Policyholder queries and objections**

5.26 As of the date of this report, Rothesay has received:

- 3 direct queries in relation to the Scheme; and
- No objections to the Scheme

from its policyholders. I have reviewed each of these, including the responses from Rothesay. I am satisfied that the responses are reasonable and appropriately address the issues raised. Where relevant Rothesay has also supported SWL in responding to its policyholders.

- 5.27 Two queries were in relation to the impact of the Scheme on the policyholder's existing Rothesay policy, including whether FSCS protection would be impacted.
- 5.28 One Rothesay policyholder engaged in extensive communications with Rothesay over an extended period once becoming aware of the proposed Part VII. I have reviewed their communications and in my view they have not raised any relevant points in relation to the Scheme as contemplated nor the potential effect on either themselves or other Rothesay policyholders. They have mainly restated a number of long-standing matters relating to their policy with Rothesay and have requested to be allowed to engage with the Part VII process, including the Directions Hearing, and being able to make representations to the Court before and at the Sanction Hearing. This policyholder has also engaged directly with the Independent Expert, SWL, Aptia, the FCA, PRA and the Court. The policyholder's correspondence did not articulate any reasons why they would be impacted by the Scheme, nor any grounds for objecting to the Scheme, and he requested to be treated as an interested party and not as an objector, and so this has been categorised as a query. I have reviewed the responses from Rothesay and I am satisfied that the responses were reasonable and appropriately addresses the issues raised. I note that they raised similar points with the IE, who responded directly to them. Details of the policyholder's correspondence including Rothesay's responses and the IE's response, and all subsequent correspondence will be provided to the Court. While I do not consider the matters raised by the policyholder to be strictly relevant to my consideration of the effect of the Scheme on existing Rothesay policyholders, I am content that any points they have raised have been dealt with appropriately, and in accordance with Rothesay's standard processes, and though the policyholder is not satisfied they have not referred the matter to the Financial Ombudsman Service.
- 5.29 I have considered all of the issues raised by the queries received from existing Rothesay policyholders. I have also considered a number of queries and objections received by SWL. None of these provided any legitimate reasons why the Scheme should not go ahead, nor suggested any reason why my assessment of the impact on Rothesay's existing policyholders should be revised.

## Summary

- 5.30 Overall it is my opinion that the proposed Scheme and transfer of the Transferring Business is not likely to adversely affect the benefits, security or administrative arrangements applicable to existing Rothesay policyholders.

Simon Johnson, FIA  
Chief Actuary, Rothesay Life Plc  
29 April 2025

# Compliance with actuarial standards

6



6.1 The Financial Reporting Council (“FRC”) sets Technical Actuarial Standards (“TASs”) for members of the UK actuarial profession.

6.2 The TASs relevant to this work are:

- TAS 100: General Actuarial Standards version 2.0
- TAS 200: Insurance version 2.0

and it is my assessment that this report, and the work which underlies it, comply with these TASs.

6.3 The report is also consistent with the requirements of Actuarial Professional Standard APS L1: Duties and Responsibilities of Life Assurance Actuaries, which is issued by the Institute and Faculty of Actuaries (IFoA).

6.4 This Report has been prepared in accordance with the Actuarial Professional Standard APS X2: Review of Actuarial Work. Individual sections of this report have been reviewed by relevant people, for factual accuracy. This has included a Legal review in order to ensure that the Scheme has been accurately described. The drafting of this Report overall has included an internal review by another actuary in the company, Graham Butcher FIA, and I have taken his feedback into account when producing this Report, although the opinions expressed remain my own. The Scheme is also subject to independent review by the Independent Expert which provides a further review of the conclusions of this Report. I am satisfied that in the context of the Scheme and the purpose of this Report, that this is sufficient peer review.

# Glossary of terms used



<b>Term</b>	<b>Description</b>
<b>BPA</b>	A Bulk Purchase Annuity is an insurance policy taken out by the Trustees of a Defined Benefit Pension Scheme, whereby an insurance company insures some or all of the pension liabilities being paid by the Scheme.
<b>BTA</b>	Business Transfer Agreement, being the agreement between SWL and Rothesay to transfer a portfolio of bulk purchase annuities business by way of a Part VII transfer.
<b>Buy-in</b>	A BPA policy held by the Trustees of the Pension Scheme with an insurance company. It can be held for the long term, or as a precursor to a buy-out. During buy-in, the Trustee receives regular payments from the insurance company which in turn fund the Trustee's pension payments to underlying scheme members.
<b>Buy-out</b>	Under a buy-out policy all responsibilities are transferred directly to the insurance company, who issues individual policies to all the members of the Scheme. This may take place either through the insurer issuing individual policies directly of the members or a deed poll (which takes effect as a series of annuities) to or in respect for the members, followed by the issuance of individual policies.
<b>Chief Actuary</b>	The actuary appointed from time to time to carry out the duties set out in the Actuaries section of the PRA rulebook
<b>Court</b>	The High Court of Justice of England and Wales
<b>Excluded Liabilities</b>	Liabilities associated with the Transferring Business but which will not transfer from SWL to Rothesay under the Scheme, e.g. fines or similar losses arising from SWL activities before the transfer. This is referred to as Excluded Liabilities in the Scheme and is set out in more detail in the Scheme.
<b>FCA</b>	Financial Conduct Authority, the regulatory body that regulates the financial services industry in the UK, including protecting customers
<b>FIM</b>	Full Internal Model, a type of internal model which may be used to calculate a company's SCR, subject to PRA approval.
<b>FRC</b>	Financial Reporting Council
<b>FSCS</b>	Financial Services Compensation Scheme
<b>FSMA</b>	Financial Services & Markets Act 2000
<b>FW Assets</b>	Assets (mainly loans made by SWL (as lender) to borrowers) where the economic interest has been passed to Rothesay under the RA, but which will remain on SWL's balance sheet until the Scheme Effective Date, at which point ownership will legally transfer to Rothesay
<b>Independent Expert</b>	The individual appointed to report on the terms of an insurance business transfer scheme and approved by the PRA and FCA pursuant to Section 109 of FSMA
<b>ORSA</b>	Own Risk and Solvency Assessment. An internal assessment a company makes of its own risk profile and hence the capital needed to allow for those risks
<b>Own Funds</b>	A company's assets minus its liabilities, assessed on a Solvency II basis
<b>PRA</b>	Prudential Regulation Authority, the UK regulatory body responsible for prudential regulation and supervision of insurers and other financial institutions
<b>Reinsurance</b>	Protection sold to or purchased from another insurance company

<b>Residual Risk policy</b>	Residual risk policies are insurance policies that provide additional protection to pension scheme trustees against certain defined risks, for example, claims from missing beneficiaries. Such insurance can be provided as part of, alongside (but separate to) a BPA, or completely separately.
<b>Rothesay</b>	Rothesay Life Plc (formerly known as Rothesay Life Limited).
<b>Rothesay Group</b>	The group of companies with Rothesay Limited as their ultimate parent
<b>Rothesay Limited</b>	Rothesay Limited, (formerly known as Rothesay HoldCo UK Limited) the parent company of Rothesay
<b>Rothesay Longevity Reinsurance</b>	Additional longevity reinsurance in relation to the unreinsured portion of the SWL Transferring Policies put in place by Rothesay, which before the Scheme Effective Date, operates as a retrocession of the risks reinsured by Rothesay under the RA.
<b>Scheme</b>	The proposed insurance business transfer scheme relating to the transfer of the bulk purchase annuities long term business of SWL to Rothesay
<b>Scheme Effective Date</b>	The date on which the proposed Scheme will take effect (currently expected to be 11 June 2025), subject to Court approval.
<b>Scheme Report</b>	The independent report produced by the Independent Expert required as part of the procedure for gaining approval of the Scheme by the Court
<b>SCR</b>	Solvency Capital Requirement under Solvency II
<b>Standard Formula</b>	A defined method for calculating a company's SCR, using techniques and calibrations intended to be applicable for the majority of insurance companies
<b>Supplementary Report</b>	An update to the Scheme Report (or, if the context infers, to the Chief Actuary or With-Profits Actuary Reports), which may be required for the secondary Court hearing reflecting any material changes that have occurred in the businesses
<b>Surplus</b>	The excess of a firm's Own Funds over its SCR
<b>SWL</b>	Scottish Widows Limited
<b>SWL Ambrosia Arrangements</b>	A series of tripartite arrangements between SWL, a Lloyds Banking Group pension scheme and a reinsurer, to transfer risk from the pension scheme to the reinsurer. SWL acts as the intermediating insurer but have negligible risk as a result of the reinsurance.
<b>SWL Longevity Reinsurance</b>	Longevity swap reinsurance contracts and associated collateral arrangements SWL had in place in respect of some of the SWL Transferring Policies
<b>SWL Transferring Policies</b>	A portfolio of in-payment and deferred annuities, currently reinsured from SWL to Rothesay
<b>Technical Provisions</b>	Solvency II base liability calculated as a sum of the Best Estimate Liability plus Risk Margin net of any transitional provisions
<b>Transferring Business</b>	The bulk purchase annuities business of SWL that it is proposed to transfer to Rothesay, comprising of the SWL Transferring Policies, FW Assets and other related contracts, including the SWL Longevity Reinsurance and the SWL Ambrosia Arrangement, as further described in section 4.6.

*Note; these terms above are relevant either for this report or the Initial Report. Defined terms are intended to be consistent with their use in the Scheme*

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