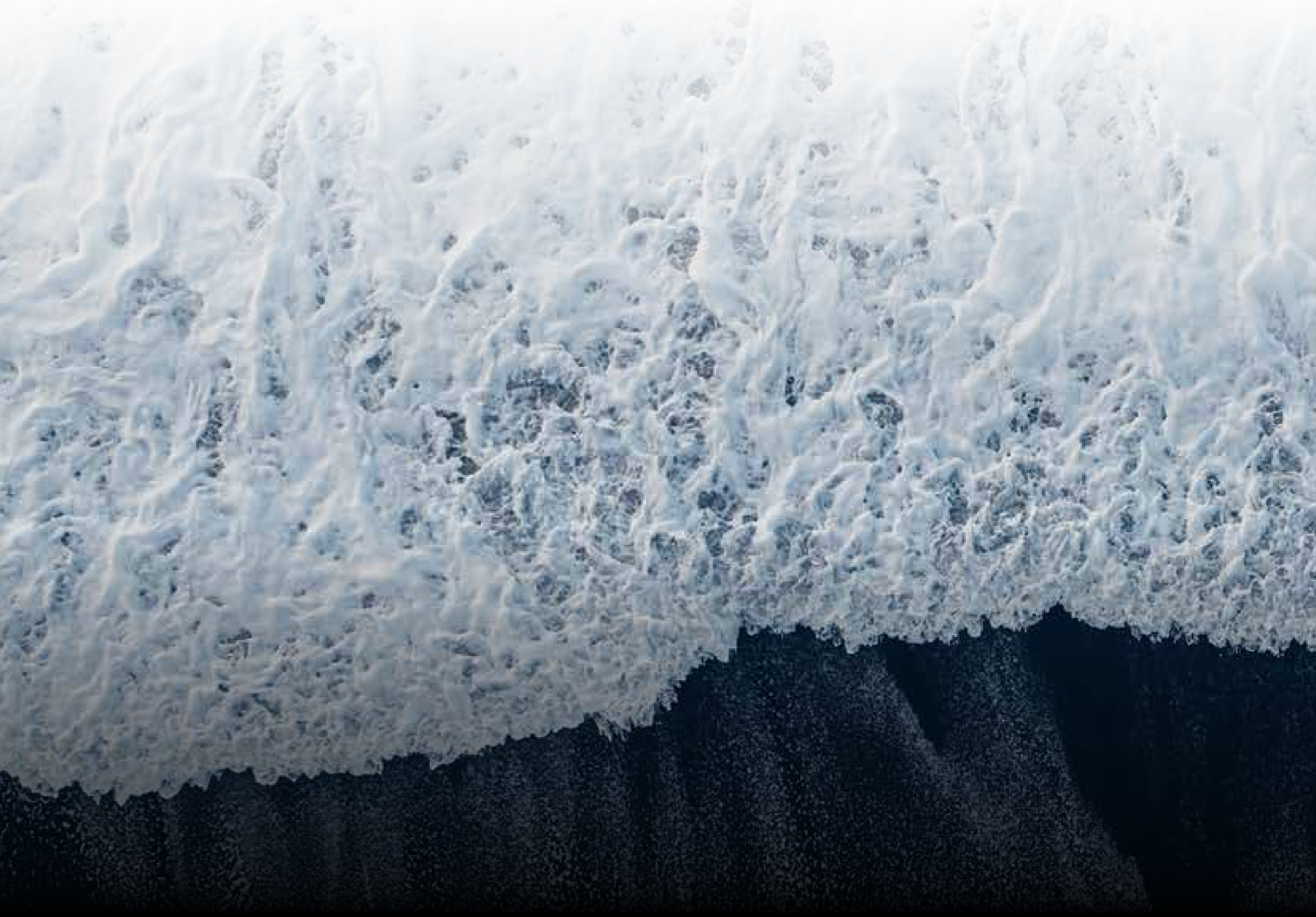
Rothesay

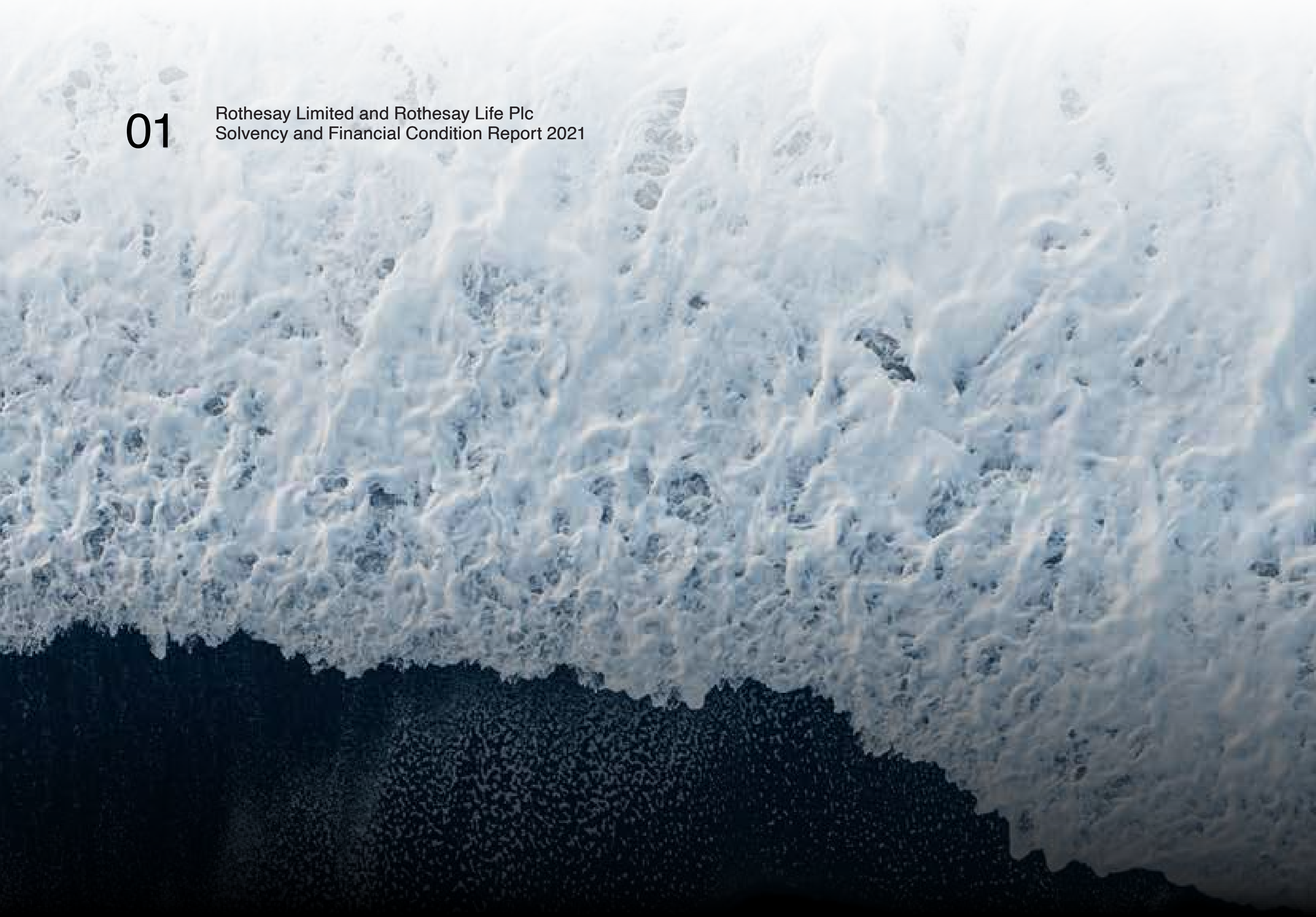
Focused on the future

Rothesay Limited and Rothesay Life Plc
Solvency and Financial Condition Report as at 31 December 2021



Our purpose

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



Introduction

1. Background

The Solvency II regime is based around a three pillar model:
- Pillar 1 – the qualitative and quantitative requirements for the calculation of solvency.
- Pillar 2 – governance requirements and own risk assessment.
- Pillar 3 – reporting requirements.

The annual Solvency and Financial Condition Report (SFCR) is a key component of Pillar 3. The structure and contents of the SFCR are prescribed under Solvency II regulations.

The SFCR is structured as follows:
- Section A provides a description of Rothesay and its performance for the year ended 31 December 2021;
- Section B describes the system of governance for Rothesay;
- Section C describes the risks faced by the business and the mitigation techniques used;
- Section D provides details of the way in which assets and liabilities have been valued for solvency purposes; and
- Section E provides information on Rothesay's solvency position.

The required quantitative reporting templates (QRTs) have been provided as an Appendix to this report.

Further information on the performance of Rothesay Limited (RL) and Rothesay Life Plc (RLP) can be found in the 2021 Report and Accounts. These can be found at www.rothesay.com/about-us/financials.

2. Scope

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

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

Executive Summary

A. Business and performance

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

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

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

Today, we manage over £62 billion in assets, secure the pensions of over 837,000 people, and pay out, on average, over £200 million in pension payments each month. We are securing the future for every one of our clients and policyholders, and improving how pensions are delivered as we do it.

Rothesay is a wholesale annuity provider, sourcing business through three different channels:
- Pension risk transfers through either buy-in or buy-out transactions;
- Reinsurance of back-books of annuities followed by Part VII transfer; and
- Acquisition of other annuity providers.

Rothesay's business strategy is focused around these key areas:
i) Providing financial security;
ii) Growth through writing value-driven new business;
iii) Service excellence; and
iv) Reliable performance.

Rothesay has delivered a strong performance in 2021 which included these key highlights:
- **Solvency position**: Despite the continuing impact of COVID-19 on financial markets, Rothesay's solvency and liquidity position has remained strong throughout the year. Regular stress testing and live monitoring of the financial and solvency position of Rothesay has allowed us to respond dynamically as the market evolved. During 2021 Rothesay successfully raised c. £740m of new capital through the issuance of Restricted Tier 1 (RT1) bonds, ensuring that we ended the year with Group SCR coverage of 226% (2020: 201%) and RLP SCR coverage of 229% (2020: 203%).
- **Resilient operations**: Despite the challenges of remote working through much of 2021, all parts of the business have been able to operate effectively, to maintain our exacting standards and to closely coordinate the different elements of their work.
- **New business:** During the year, Rothesay wrote £3.0bn of new business, assisting 10 pension schemes to de-risk their liabilities (2020: £7.0bn).
- **IFRS pre-tax profit:** During 2021, Rothesay was successful in investing the premiums from 2020 new business which was one of the main drivers of Rothesay's IFRS profit before tax of £913m (2020: £1,469m).
- **Prudential transaction:** During 2021, we welcomed 350,000 policyholders to Rothesay following High Court approval of the transfer of the Prudential annuity portfolio.

Executive Summary
continued

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

Rothesay's Committee structure as at December 2021 is shown below:

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

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

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

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

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

Customer and Conduct Committee
Responsible for:
- Treating customers fairly
- Regulatory conduct

Board Committee
Hybrid Committee

Note that in 2022 we plan to make the Customer and Conduct Committee a Board committee to enhance our strong governance model, maintaining focus on providing excellent customer service as an essential element of our business model, brand and reputation.

Rothesay adopts the principles of a 'three lines of defence' model for effective risk management that provides a consistent, transparent and clearly documented allocation of accountability and segregation of functional responsibilities.

- **First line:** 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 control functions, whose responsibility it is to ensure the integrity of Rothesay's operations and reporting. These include operations, finance and legal.

In 2021, a new committee, the Business Controls Committee, chaired by the Chief Financial Officer (CFO), was set up to focus on the control environment within Rothesay, the management of third party suppliers and the risks arising from new activities.

- **Second line:** Design and maintenance of the risk management framework as well as risk oversight is provided by the Chief Risk Officer (CRO), his team and risk management committees. The Chief Compliance Officer and his team report to the CRO. The Executive Risk Committee (ERC) (formerly known as the Working Level Risk Committee) is chaired by the CRO and consists of relevant senior managers working within a delegated risk management framework. This committee reviews all material new investment, hedging or liability transactions.
- **Third line:** Internal Audit provides the Board and Executive with comprehensive, independent, objective assurance over governance, risk management and internal control.

Rothesay's internal control system is designed to provide reasonable assurance that our financial reporting is reliable, is compliant with applicable laws and regulations and our operations are effectively controlled. The Board is ultimately responsible for overseeing and maintaining the adequacy and effectiveness of the risk management and internal control systems.

C. Risk profile

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

2021 continued to be dominated by the impact of COVID-19 on our business operations and on financial markets.

Our market-leading risk management systems have allowed us to protect our balance sheet during adverse and volatile market conditions. During 2021, there has been considerable volatility in interest rates, exchange rates and inflation. At the same time, credit market conditions have continued to improve, with credit markets being stronger than the levels seen at the end of 2019. Buoyant credit markets increase the risk that creditor protections are inappropriately weakened or that risk-adjusted returns are inadequate and Rothesay has remained patient and cautious in making new investments over the year.

2021 has seen higher levels of inflation than have been experienced in recent years, with increases being most pronounced in relation to near-term inflationary expectations. Rothesay's biggest inflation exposure is to long-term rates of inflation, which we closely hedge using derivatives and inflation-linked assets and which we stress as part of our stress and scenario testing. However, we have also reviewed our investment portfolio to ensure that our counterparties can withstand the impact of higher levels of realised inflation, given potential impacts on input costs and margins.

Homeworking by Rothesay and our strategic partners has had no material impact on our operations, with productivity remaining at a good level and risk controls continuing to work effectively.

In 2021, Rothesay wrote £3.0bn of new business. We now manage assets of over £62.5bn and insure the pensions of over 837,000 individuals.

We entered into two new reinsurance contracts in 2021 covering much of the business written in the last eighteen months and this means our reinsurance coverage is now 84% (2020: 87%). Longevity reinsurance reduces retained risk, reduces the capital intensity of new business and allows the release of capital held against existing business.

Rothesay has continued its strategy of investment in a diverse range of assets, but given market conditions in 2021, there have been fewer opportunities to invest in either liquid or illiquid assets. During 2021, we have increased our investment in ERMs by £1.4bn and have also begun to fund fixed-for-term mortgages. Although both types of mortgage are secured on residential property, the risk profiles of ERMs and fixed-for-term mortgages are quite different. Where possible, we have continued to switch assets to improve risk-adjusted returns or to reduce the climate-related risk of our portfolio. 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.

Executive Summary
continued

The long-term impact of COVID-19 is still unclear. The long-term effectiveness of vaccination programmes is uncertain and the emergence of new variants of COVID-19 suggests that it may be some time before life returns to normal. Rothesay's evolving investment strategy, together with the backdrop of market volatility and uncertainty over the future impact of COVID-19, has meant that Rothesay's proactive approach to risk management has continued to be crucial in delivering Rothesay's strategic objectives and ensuring continued financial security for our policyholders.

Rothesay has continued to strengthen its control functions and the risk function, bringing in additional experts in credit risk, compliance and ESG. We have also strengthened our in-house internal audit capabilities.

There continue to be changes in accounting regulation, asset trading markets, pensions and tax, the effects of which are highly uncertain. The government's proposed reform of the leasehold market could have an adverse impact on Rothesay's loans secured on ground rents. In addition, the Treasury is consulting on changes to prudential regulation now that the UK is outside the EU.

The table below provides a breakdown of Rothesay's Solvency Capital Requirement (SCR) post-diversification benefit between modules as at 31 December 2021 and 31 December 2020. Credit and counterparty risk capital for 31 December 2021 has been calculated using the Partial Internal Model (PIM). Insurance risk relates mainly to longevity risk. Market risk is dominated by spread risk, i.e. the risk that credit spreads widen. The breakdown of the SCR has not changed materially between 2020 and 2021.

Composition of SCR (%)	**2021**	2020
Market risk	**64**	64
Insurance risk	**24**	24
Operational risk	**6**	6
Counterparty risk	**6**	6

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

D. Valuation for solvency purposes

The table below shows the technical provisions of Rothesay (which are the same for RLP) as at 31 December 2021. Transitional solvency relief is calculated using transitional measures on technical provisions. The transitional solvency relief shown for 31 December 2021 allows for the impact of recalculation on that date and for amortisation of 5/16ths of the allowance. The transitional solvency relief shown for 31 December 2020 reflects amortisation of 4/16th of the allowance.

	2021 £m	2020 £m
Gross best estimate liabilities	**49,575**	50,755
Reinsurance liabilities	**3,587**	2,941
Risk margin	**2,204**	2,295
Transitional solvency relief (gross of tax impact)	**(1,455)**	(1,602)
Net technical provisions	**53,911**	54,389

Net technical provisions reduced from £54.4bn as at 31 December 2020 to £53.9bn as at 31 December 2021 largely as a result of rising long-term interest rates. This was partially offset by new business and the impact of increases in assumed long-term inflation.

The transitional solvency relief was recalculated on 31 December 2021 as we are required to do every two years.

E. Capital management

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

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

Rothesay aims to maintain solvency coverage in the range of 130% to 150% of the regulatory minimum solvency capital requirement (SCR). We started the year with capital surplus well above our target operating range and Rothesay's solvency position has remained robust throughout the period despite considerable market volatility. In 2021, we issued £740m of Restricted Tier 1 (RT1) capital (denominated in sterling and US dollars) in preparation for anticipated new business volumes, so our current capital position is now even further above our target operating range.

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

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

As at 31 December 2021, RLP had Own Funds of £8,361m (2020: £7,353m) and Rothesay Limited had Own Funds of £8,269m (2020: £7,277m).

Group SCR coverage increased from 201% at 31 December 2020 to 226% at 31 December 2021 and SCR coverage at RLP increased from 203% on 31 December 2020 to 229% on 31 December 2021. SCR coverage differs between the Group and RLP because of group adjustments. This can be seen in QRT S.23.01 Own Funds. SCR and MCR coverage is summarised in the table below:

	RL		RLP	
	2021	2020	**2021**	2020
Tier 1 capital (£m)	**6,833**	5,781	**6,925**	5,857
Tier 2 capital (£m)	**948**	984	**948**	984
Tier 3 capital (£m)	**488**	512	**488**	512
Total eligible own funds to meet the SCR (£m)	**8,269**	7,277	**8,361**	7,353
SCR (£m)	**3,657**	3,623	**3,657**	3,623
Surplus above SCR (£m)	**4,612**	3,654	**4,704**	3,730
SCR coverage (%)	**226%**	201%	**229%**	203%
SCR coverage without transitional solvency relief (%)	**179%**	152%	**181%**	154%
MCR (£m)	**1,115**	1,126	**1,115**	1,126
Total eligible own funds to meet the MCR (£m)	**7,056**	6,006	**7,148**	6,083
MCR coverage (%)	**633%**	533%	**641%**	540%

After allowing for amortisation of another 1/16th of transitional solvency relief on 1 January 2022, SCR coverage falls to 224% at RLP and 221% at RL Group. RL and RLP have continued to meet both the Minimum Capital Requirement and Solvency Capital Requirement during 2021. Eligible own funds to meet MCR excludes all Tier 3 capital and Tier 2 capital is restricted to 20% of MCR.

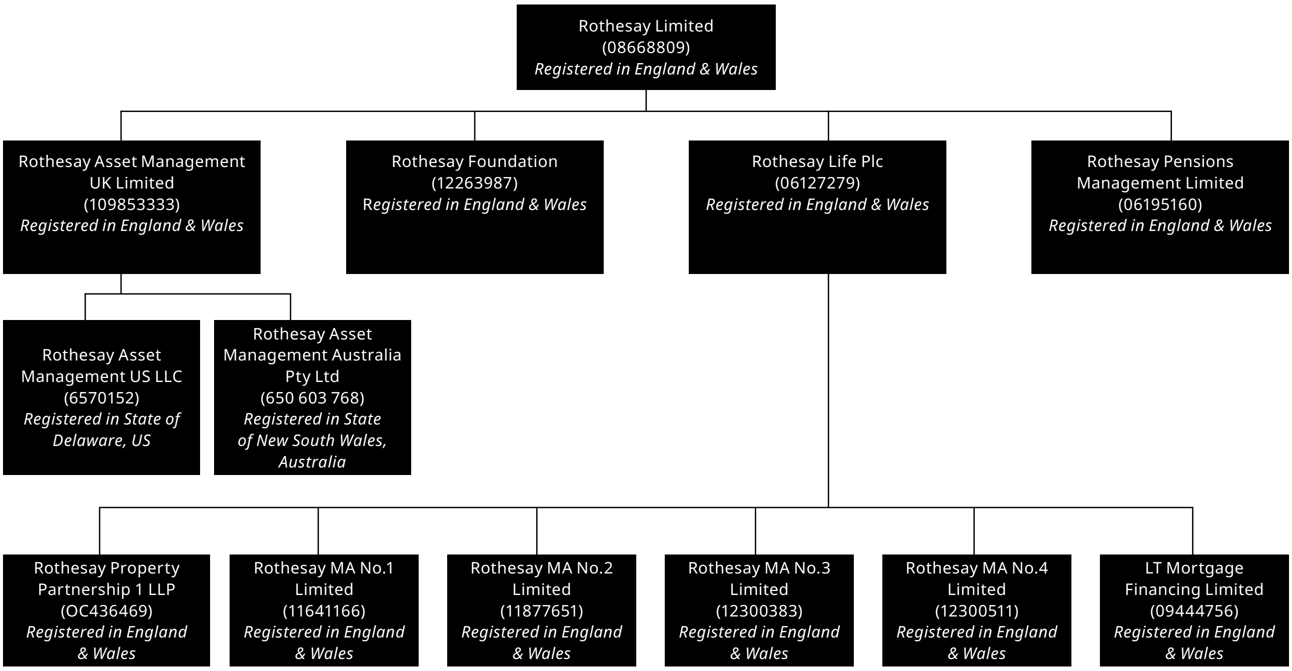
A. Business and performance

A.1 Business

A.1.1 Rothesay background and structure

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

During 2021 Rothesay Life Plc has issued £740m of Restricted Tier 1 (RT1) capital (denominated in sterling and US Dollars) in preparation of anticipated new business volumes in 2022. The structure of the Rothesay Group is shown in the diagram below:



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

Group undertakings	Country of incorporation	Primary business operation	**2021 IFRS valuation £m**	2020 IFRS valuation £m	**2021 % equity interest**	2020 % equity interest
Rothesay Pensions Management Limited	UK	Service company	**1**	11	**100%**	100%
Rothesay Life Plc	UK	Life insurance	**2,464**	2,464	**100%**	100%
LT Mortgage Financing Limited	UK	Service company	**6**	6	**100%**	100%
Rothesay Property Partnership 1 LLP	UK	Service company	**–**	–	**100%**	–
Rothesay MA No.1 Limited	UK	Service company	**5**	5	**100%**	100%
Rothesay MA No.2 Limited	UK	Service company	**–**	–	**100%**	100%
Rothesay MA No.3 Limited	UK	Service company	**2**	2	**100%**	100%
Rothesay MA No.4 Limited	UK	Service company	**–**	–	**100%**	100%
Rothesay Asset Management UK Limited	UK	Service company	**5**	5	**100%**	100%
Rothesay Asset Management Australia Pty Ltd	Aus	Service company	**–**	–	**100%**	–
Rothesay Asset Management US LLC	US	Service company	**5**	5	**100%**	100%

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

RLP is Rothesay’s regulated insurance entity.

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

Rothesay Asset Management Australia Pty Ltd was incorporated on 23 July 2021 and is registered in New South Wales, Australia. The registered office is Level 4, Deutsche Bank Place, 126 Phillip Street, Sydney, NSW 2000. Australia. The company is a subsidiary of Rothesay Asset Management UK Limited and remains dormant.

LT Mortgage Financing Limited (LTMF) was incorporated as a wholly owned subsidiary of RLP on 17 February 2015. Following the approval of the PIM during 2018, a number of portfolios of ERMs have been transferred to LTMF and a series of notes have been issued to the matching and non-matching adjustment funds of RLP.

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

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

Rothesay MA No. 2 Limited and Rothesay MA No. 4 Limited were incorporated as wholly owned subsidiaries of RLP in March 2019 and November 2019 respectively and remain dormant. Rothesay Property Partnership 1 LLP was incorporated during March 2021 and remains dormant.

Rothesay Asset Management UK Limited was incorporated on 27 September 2017, as an intermediate holding company for Rothesay Asset Management US LLC, a limited liability company in the state of Delaware that assists RLP in originating and overseeing US assets.

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

A.1.2 Material lines of business and geographical areas

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

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

Rothesay only writes insurance business in the United Kingdom. Rothesay Asset Management US LLC assists Rothesay in sourcing US assets and around a third of our assets are now invested outside of the UK. Rothesay Asset Management Australia Pty Ltd has been set up to assist Rothesay in sourcing Australian assets.

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

A. Business and performance

continued

A.1 Business continued

A.1.3 Significant business events during 2021

COVID-19

The impact of the COVID-19 pandemic, the devastating loss of life it has caused along with the profound shock to economies throughout the world, will continue to be felt for many years to come.

As a business, Rothesay is designed to protect pensions even through the most difficult times and it continues to be a matter of pride to us, and comfort to our policyholders, that every pension we protect is as secure now as it was before the pandemic.

Delivering this level of security and peace of mind would not have been possible without the truly outstanding efforts of our people throughout the year. Despite the challenges of remote working through much of 2021, all parts of the business have been able to operate effectively, to maintain our exacting standards and to closely coordinate the different elements of their work.

Our IT systems and operational infrastructure provided a seamless continuation of all business functions as we moved from fully-remote to hybrid working, along with supporting us in continuing to provide the market-leading customer service our policyholders rightly expect from us. Our purpose-built risk management systems continued to prove invaluable in supporting us to protect the balance sheet in the challenging market conditions experienced throughout much of the year.

Other business events

Despite a challenging environment, our in-house investment team has completed the investment of premiums received in 2020 according to our long-term strategy and in line with our underwriting targets. When we underwrite new business, we assume it will take time to invest the premiums and this allows us to be patient in making investments, a particularly important strategy under the conditions prevailing throughout much of 2021 where risk-adjusted returns were low. Investment of 2020 premiums has helped generate IFRS pre-tax profit of £913m (2020: £1,469m). This follows the successful investment of over £10bn of assets in 2020 and our record performance in that year.

Our investment portfolio continues to have an average rating of AA and is focused on assets which are secured with high-quality collateral. During 2021, we have worked with UK mortgage providers to develop a new long-term, fixed rate mortgage and this led to us partnering with Kensington Mortgages to launch a new ‘Flexi Fixed for Term’ mortgage that allows borrowers to fix the rate paid on their mortgage for the full term of the loan - anywhere between 11 to 40 years. Within this term, monthly payments will not change – giving borrowers certainty and peace of mind.

The new business environment has been more subdued in 2021 than we would normally expect, largely due to the delayed impact of the COVID-19 pandemic which caused a number of schemes to put their de-risking preparations on hold. We have maintained our disciplined approach to new business, remaining patient in a competitive environment to ensure returns are appropriate. Despite these challenges, our performance has been very solid and we have assisted ten pension schemes to de-risk during the year, generating £3.0bn of new business premiums (2020: £7.0bn).

On 24 November 2021, the High Court approved the transfer of around 350,000 Prudential policies to Rothesay, following reinsurance of the business by Rothesay in 2018, providing clarity for us and the sector as a whole about the operation of Part VII transfers. We are delighted to welcome our new policyholders to Rothesay and our focus will be on ensuring that the transition is as smooth as possible for them.

A.1.4 Other information

Regulators

The Group supervisors can be contacted as follows:

Prudential Regulation Authority
Bank of England
20 Moorgate
London
EC2R 8AH
0207 601 4878

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

Auditors

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

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

Shareholders

On 1 December 2020, the Blackstone Group sold its shareholding in Rothesay Limited to GIC and MassMutual. The shareholdings of each ultimate shareholder in Rothesay Limited as at 31 December 2021 based on the percentage nominal share capital owned are as follows:

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

The remaining percentage is owned by the Directors, management, employees and both The Rothesay Employee Share Trust (the Trust) and The Employee Share Incentive Plan.

Rothesay Limited holds 100% of the shares in RLP.

A. Business and performance

continued

A.1 Business continued

A.1.5 Intra-Group transactions

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

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

	2021 £m	2020 £m
Statement of comprehensive income		
Cost transfer	**(5)**	(5)
Statement of financial position		
Other payables	**49**	41
Capital	**2,464**	2,464

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

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

During 2021, the Trust acquired 531,648 B ordinary shares from employees leaving employment.

On 19 March 2020, the Trust purchased 2,428,491 B ordinary shares for consideration of £9.5m. On 1 December 2020, the Trust purchased 10,443,161 B ordinary shares for consideration of £38.8m. A further 5,893 B ordinary shares were acquired by the Trust during 2020 from employees leaving employment.

On 3 March 2020, RL established a new employee share plan for all UK employees called the Rothesay Life UK Employee Share Incentive Plan (ESIP). The plan has been structured to operate within specific rules set by HM Revenue & Customs. A new employee benefit trust was established to support the ESIP (the ESIP Trust). The Trust transferred 226,800 shares to the ESIP Trust on 24 March 2020 and a further 266,400 shares on 31 March 2021. These shares are held on trust for participating employees in accordance with the ESIP rules. Shares owned by the ESIP Trust are included at cost in the consolidated statement of financial position and are shown as a deduction from shareholders' equity. They are disclosed as employee scheme shares until they are withdrawn.

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

	2021 £m	2020 £m
Statement of financial position		
Other payables	**21**	11
Capital	**1**	11

Transactions with Rothesay Asset Management UK Limited were as follows:

	2021 £m	2020 £m
Capital	**5**	5

Transactions with LT Mortgage Financing Limited
Between 2018 and 2020, £3.1bn of ERMs were transferred from RLP to its subsidiary LT Mortgage Financing Limited (LTMF). During 2021, a further £1bn of ERMs were transferred. Whenever ERMs were transferred, LTMF became the beneficial owner in the ERMs in exchange for the issue of loan notes. These transactions took place on an arm's-length basis using the fair value of the equity release mortgages. Under IAS 39, the loans cannot be derecognised from the Company as RLP effectively maintains all the risk and rewards and control of the mortgages after the securitisations through the loan notes. For the purposes of determining the valuation rate of interest under IFRS 4, these securitisations are ignored.

Transactions with Rothesay MA No.1 Limited
During December 2018, £0.8bn of ground rent loans were transferred from RLP to its subsidiary Rothesay MA No.1 Limited (RMA1). RMA1 became the beneficial owner in the ground rent loans in exchange for the issue of loan notes. These transactions took place on an arm's-length basis using the fair value of the ground rent loans. Under IAS 39, the loans cannot be derecognised from the Company as RLP effectively maintains all the risk and rewards and control of the loans after the securitisations through the loan notes. For the purposes of determining the valuation rate of interest under IFRS 4, this securitisation is ignored.

Transactions with Rothesay MA No. 3 Limited
During December 2020, €0.5bn of Dutch mortgage loans were transferred from RLP to its subsidiary Rothesay MA No. 3 Limited (RMA3). During 2021, a further €0.5bn of Dutch Mortgage loans were transferred to RLP. 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 IAS 39, the loans cannot be derecognised from the Company as RLP effectively maintains all the risk and rewards and control of the mortgages after the securitisations through the loan notes. For the purposes of determining the valuation rate of interest under IFRS 4, this securitisation is ignored.

A.2 Underwriting performance

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

As noted previously, all of Rothesay's business risks and returns are within one business segment and all of our business is written in the UK. The split between regular premiums (payments of premium made regularly over the duration of the policy in relation to the in-force inwards longevity reinsurance business written in prior years) and single premiums (single payment of premium which covers the life of the policy) is shown below (please also see QRT S.05.01.02):

	Regular premiums		Single premiums	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Pension bulk annuities	**253**	260	**2,952**	7,021
Total gross premiums written	**253**	260	**2,952**	7,021

A. Business and performance

continued

A.2 Underwriting performance continued

Rothesay achieved an IFRS profit before tax of £913m (2020: £1,469m) and an operating profit before tax of £904m (2020: £1,399m).

IFRS financial performance	2021 £m	2020 £m
New business profit (assuming assets fully invested)	**213**	449
Impact of temporarily being invested in gilts	**(201)**	(547)
Profit from investing prior year's premiums	**547**	909
Performance of in-force book	**403**	476
Non-economic assumption changes and model refinement	**142**	284
Acquisition and Group costs	**(141)**	(119)
Administration expenses	**(59)**	(53)
Operating profit before tax	**904**	1,399
Borrowing costs	**(115)**	(108)
Project and other one-off expenses	**(25)**	(34)
Economic profits	**149**	212
IFRS profit before tax	**913**	1,469

The reduction in profits has occurred because in 2020 we were able to invest almost £10bn of assets received as premiums in the previous year at attractive risk-adjusted yields.

The financial performance analysis shown in the table above provides an explanation of the way in which profits have been generated.

New business profits in the analysis are calculated assuming full investment of premiums and the short-term impact of any under-investment is reported separately in the table. New business profit for the year was £213m (2020: £449m).

We are patient when investing the premiums received, leading to a temporary reduction in profits of £201m (2020: a reduction of £547m) from the time taken to appropriately invest the gilts received as new business premiums. We anticipate that this will reverse as assets are invested according to our long-term strategy. Profits for the period include profits of £547m generated on investment of the assets received as premiums in 2020 (2020: £909m). As noted above, this is lower than 2020 because of the extraordinary market conditions seen at that time and the scale of the uninvested assets at the beginning of 2020.

Profits generated on the in-force book were £403m (2020: £476m). These profits mainly arose from the release of prudent margins as the business runs off and as members exercise their options.

Non-economic assumption changes and model refinement resulted in profits of £142m (2020: £284m), reflecting updated longevity assumptions and expense assumptions. Further detail on assumption changes is provided in Section D.2.1.

Acquisition and Group costs increased from £119m to £141m as a result of the growth in the business and the increase in expenses relating to share-based payments.

Rothesay made economic profits of £149m (2020: £212m). Economic profits represent the change in value of assets from changes in economic conditions less the change in value of liabilities from those changes. In 2021, credit gains and the impact of the increase in property prices have been partially offset by the impact of increases in long-term interest rates and the strengthening pound.

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

A.3 Investment performance

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

	2021 £m	2020 £m
Financial investments		
Collective investment schemes	**5,405**	4,286
Government, sub sovereign and agency obligations	**18,129**	18,871
Corporate bonds and other corporate debt	**26,357**	27,172
Derivative assets	**20,769**	30,700
Collateralised agreements and financing	**262**	1,727
Loans secured on property	**7,411**	6,523
Equity release mortgages	**5,329**	4,222
Certificate of deposits	**183**	211
Total financial assets	**83,845**	93,712
Financial liabilities		
Derivative financial instruments	**20,688**	30,359
Collateralised financing agreements	**414**	894
Total financial liabilities	**21,102**	31,253
Net financial investments	**62,743**	62,459

Net financial investments increased from £62.5bn at 31 December 2020 to £62.7bn at 31 December 2021, largely as a result of market movements.

A.3.1 Investment return

The table below provides an analysis of the investment return:

	2021 £m	2020 £m
Interest income on financial investments at fair value through profit and loss	**1,445**	1,400
Unrealised (losses)/gains on financial investments	**(1,564)**	2,745
Realised gains on financial investments	**237**	561
Investment management expenses	**(70)**	(58)
Total investment return	**48**	4,648

Interest income has increased due to the growth in assets under management. The losses on financial investments were largely driven by the increase in long-term interest rates over the year.

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

A. Business and performance
continued

A.3 Investment performance continued
A.3.2 Information about profit and losses in equity
Hedging reserve
A foreign currency exposure arises on the RT1 notes issued in US dollars and the associated coupon payments. The risk arises from the fluctuation in exchange rates, which would cause volatility in the biannual coupon payments and the principal repayment at the call date.

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

Rothesay did not recognise any other gains and losses directly in equity.

A.3.3 Information about investments in securitisations
Rothesay holds notes considered as securitisations from eight issuing programmes. These are included in corporate bonds and other corporate debt above.

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

A.4 Performance of other activities
Rothesay does not have any other material activities.

A.5 Any other information
There is no other material information on the business and performance.

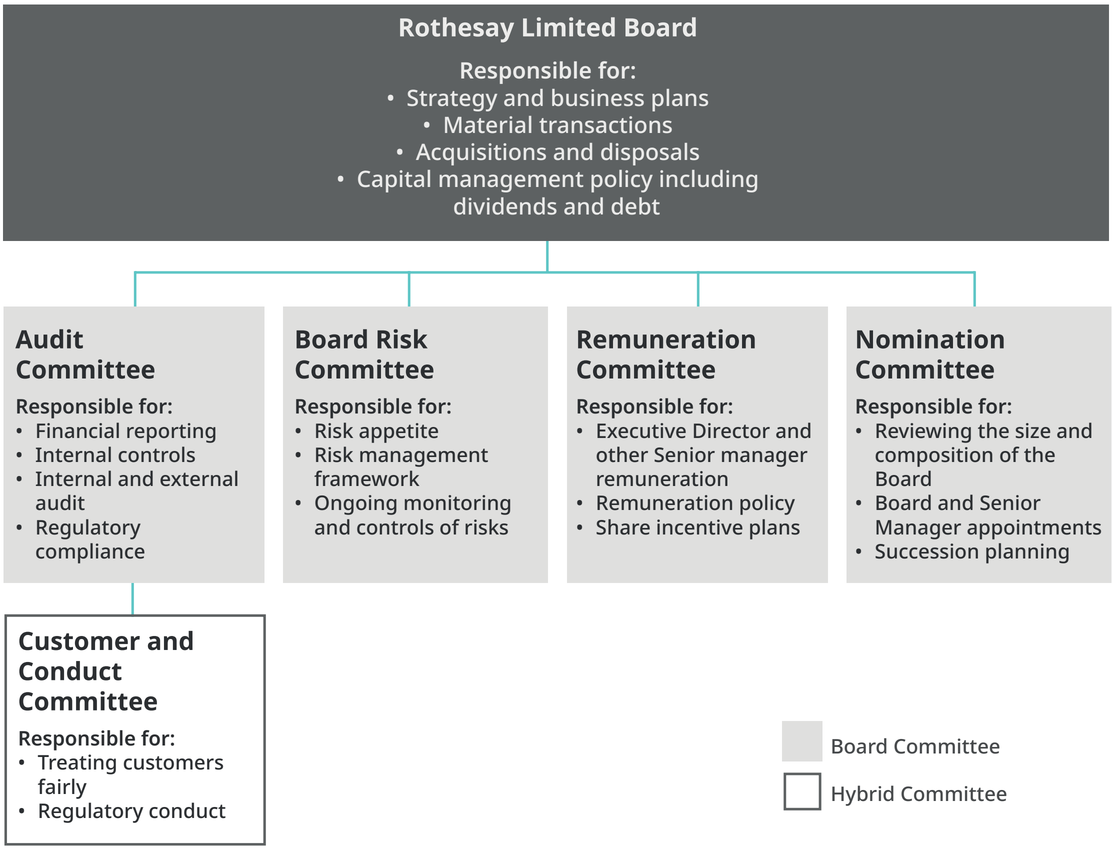
B. System of governance

B.1 General information on the system of governance

B.1.1 Corporate governance

The Boards of Rothesay, together with management, are responsible for ensuring the security of our obligations to our policyholders and generating and delivering sustainable shareholder value through the management of Rothesay's business. We believe that the system of governance continues to be appropriate given the nature, scale and complexity of the risk inherent in the business.

Rothesay's Committee structure as at 31 December 2021 is outlined below:



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

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

In 2022 we plan to make the Customer and Conduct Committee a Board committee to enhance our strong governance model, maintaining focus on providing excellent customer service as an essential element of our business model, brand and reputation.

The Board of Rothesay Limited

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

B. System of governance
continued

B.1 General information on the system of governance continued

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

- Strategy and business plans.
- Material new investments and new insurance transactions.
- Acquisitions and disposals.
- The constitution of Board Committees.
- Capital management policy including dividend policy.
- Other key Rothesay policies.

Board Committees

Rothesay's governance structure means that decisions can be made quickly and efficiently whilst ensuring that there is robust oversight. The Board is supported by the Audit Committee, the Board Risk Committee, the Remuneration Committee and the Nomination Committee. Terms of reference for these Committees can be found at www.rothesay.com. In 2021, to streamline governance, the Board Risk Committee became a committee of Rothesay Limited rather than of RLP. This aligns the structure with the reporting line of the Audit Committee.

Membership of the Committees is shown in the table below:

	Audit Committee	Board Risk Committee	Remuneration Committee	Nomination Committee
Chair	Bill Robertson	Stan Beckers	Naguib Kheraj	Naguib Kheraj
INED members	Ed Giera Jane Hanson Ray King Terry Miller Charles Pickup	Naguib Kheraj Ed Giera Ray King Charles Pickup Bill Robertson	Stan Beckers Terry Miller	Ray King Terry Miller Charles Pickup
Shareholder Director members			Tim Corbett Robin Jarratt	Tim Corbett Robin Jarratt

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

Audit Committee

The Committee is responsible for assisting the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the internal and external audit processes and the Group's process for monitoring compliance with laws and regulations and the business principles. The Committee also receives reports from the Customer and Conduct Committee.

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

Board Risk Committee

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

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

The Committee is also responsible for the oversight of the Executive Risk Committee (ERC) (previously known as the Working Level Risk Committee), and its sub-committees, which are responsible for the ongoing monitoring and control of all financial risks, insurance risks, ESG risk and governance and operational risks associated with the activities of the Group. The ERC membership consists of seventeen members and is chaired by the Chief Risk Officer (CRO).

Remuneration Committee

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

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

Nomination Committee

The Committee is responsible for monitoring the balance of skills, knowledge, experience, independence and diversity on the Board, identifying and recommending Board, Board Committee and senior management appointments to the Boards of the various Rothesay Group entities, as appropriate, and monitoring succession plans for the Executive Directors and the development plans of senior management within Rothesay.

The responsibilities of the Committee include reviewing the structure, size and composition of the Board of Directors, identifying and nominating candidates to fill Board vacancies as and when they arise and approving senior management appointments.

The Committee is composed of Non-Executive Directors with an appropriate mix of expertise and experience. Membership includes representation from Rothesay’s shareholders in order to ensure that decisions about senior appointments have their support.

Customer and Conduct Committee

The Customer and Conduct Committee (CCC) is responsible for ensuring that customers, clients and counterparties are treated fairly by Rothesay and its strategic business partners. The Committee also oversees Rothesay's approach to regulatory conduct.

The Committee is composed of fifteen members and is chaired by Terry Miller, an INED. Two other INEDs, Charles Pickup and Jane Hanson, are also members of the Committee along with the CFO. The Chairman of the Board and other INEDs also regularly attend.

In 2022 we plan to make the CCC a Board committee. The new committee will be composed solely of non-executive Directors and will oversee the conduct risk framework for managing our direct and indirect relationships with customers and consumers. A new executive-level committee will be established with a remit similar to the existing hybrid CCC. The restructuring will enhance our strong governance model, maintaining focus on providing excellent customer service as an essential element of our business model, brand and reputation.

Executive Management Committee

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

B. System of governance
continued

B.1 General information on the system of governance continued

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

Simon Morris stood down from the Board on 13 February 2021.

Under the new current ownership, each of GIC and MassMutual has the right to appoint two Non-Executive Directors. In order to ensure that the Board will continue to have a majority of independent Non-Executive Directors when GIC and MassMutual appoint their second shareholder Directors, new independent Non-Executive Directors have been appointed. Jane Hanson was appointed to the Board on 1 January 2021, Ed Giera on 25 January 2021 and Heather Jackson on 1 April 2021.

As noted above, in 2021, to streamline governance, the Board Risk Committee became a committee of Rothesay Limited rather than of RLP. This aligns the structure with the reporting line of the Audit Committee.

B.1.3 Remuneration policies and practices
Rothesay's remuneration policy is intended to:
- promote sound and effective risk management;
- align individuals' incentives with multi-year performance;
- discourage excessive or concentrated risk-taking;
- allow Rothesay to attract and retain proven talent; and
- align aggregate remuneration with the performance of Rothesay as a whole and encourage teamwork.

This is achieved by ensuring that variable remuneration is linked to performance across a range of financial and non-financial metrics. The CRO provides input to the annual appraisal process and financial metrics are not taken into consideration when evaluating the performance of second and third-line staff. Considerable attention is paid to non-financial matters in assessing performance, including policyholder experience, contribution to ESG goals, operational risk management, compliance, conduct and team work.

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

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

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

B.1.4 Material transactions with related parties

During 2021 Rothesay entered into various transactions with fellow participating interests which are subject to common control from the same source.

Key management personnel comprise the Directors of RL, 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:

	2021 £m	2020 £m
Salaries, bonus and other employee benefits	**21**	20
Equity-based compensation payments	**15**	8
Total transactions	**36**	28

On 19 March 2020, members of key management personnel and their families sold new B ordinary shares to the Employment Benefit Trust for consideration of £8.1m.

On 1 December 2020, members of key management personnel and their families sold 18,766,215 new B ordinary shares to GIC, MassMutual and the employment benefit trust for consideration of £69.7m, £25.3m of which is deferred for one year. They also sold 73,500,000 H shares to GIC and MassMutual for consideration of £176.2m, £88.4m of which is payable over three years from 2021 to 2023.

B.1.5 Authority, resourcing and independence of control functions

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

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

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

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

B.2 Fit and proper requirements

The FCA Handbook and PRA Rulebook requires firms to ensure that anyone performing a Senior Management Function or Certification Function is fit and proper for their role. This requirement also applies to Non-Executive Directors who are not Senior Managers.

Rothesay's Fit and Proper Policy was first approved by the Board in November 2015. It has since been updated regularly, and at least annually, to ensure ongoing compliance with the fitness and propriety requirements of Solvency II and the Senior Managers & Certification Regime (SMCR). The Policy identifies who is in scope, how fitness and propriety is assessed for both new starters and on an ongoing basis and the governance arrangements in relation to individuals being approved as being fit and proper, including Rothesay’s requirements concerning skills, knowledge and expertise applicable to persons who effectively run the business.

B. System of governance
continued

B.2 Fit and proper requirements continued
Rothesay's assessments of individuals' fitness and propriety reflect the SMCR fit and proper requirements, namely:
- Financial soundness;
- Honesty, integrity and reputation; and
- Competence and capability.

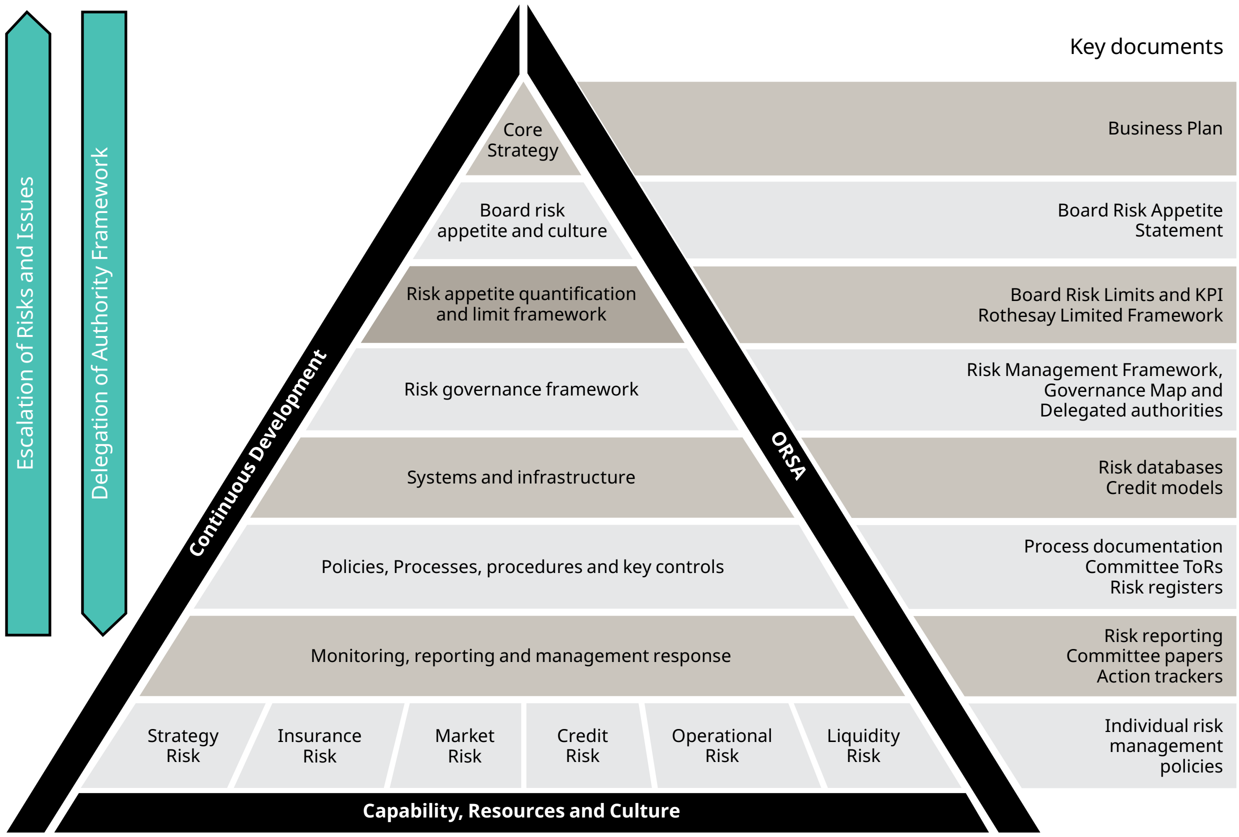
In addition, the Nomination Committee ensures that the Boards collectively possess appropriate qualifications, experience and knowledge about at least:
- Insurance and financial markets;
- Business strategy and general management;
- Governance;
- Risk management;
- Financial and actuarial analysis; and
- Regulatory framework and requirements.

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

In addition, the Chairman and Chief Compliance Officer undertake individual review sessions with each of the Directors.

B.3 Risk management system including the own risk and solvency assessment
B.3.1 Risk management framework
Rothesay has an embedded risk management framework (RMF) which ensures that every employee knows that they are responsible for the identification and management of risks. Throughout 2021 Rothesay continued to invest in the risk and compliance function, both through recruitment and by strengthening our capabilities in relation to areas such as climate change and operational resilience.

The RMF informs and is directed by Rothesay's business strategy. Risk management considerations are integral to setting business strategy, as we seek to optimise our risk-adjusted returns and create shareholder value whilst also meeting the expectations of our customers and other stakeholders. The RMF ensures both clear ownership and strong oversight of all of Rothesay's risks, both quantifiable and non-quantifiable.



Core strategy

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

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

Board risk appetite and culture

Rothesay's risk appetite expresses the types of risk that Rothesay is willing to be exposed to 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 aim to protect regulatory surplus and minimise balance sheet volatility by hedging longevity risk and adopting a cautious approach to investment.

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

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

B. System of governance
continued

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

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 – risks that are core to the business model;
- Tolerated – risks that we incur as a result of the business model but try to mitigate or manage in some way; or
- Undesired – risks that we will seek to avoid or fully eliminate where possible.

All potential risks are considered as part of defining the overall risk universe for Rothesay, with each risk categorised as above and assigned an executive risk owner.

Note that in the high level risk appetite table, climate change is captured within other risks, for example credit risk includes the potential impact of climate change on the credit worthiness of counterparties and market risk includes the potential impact of climate change on property prices.

Rothesay's risk appetite		Risk preference		
Risk type	Definition	Undesired	Tolerated	Desired
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 and cyber risk.	●		

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 apply to standalone risks, in addition to combinations of risks that are stressed through the use of a suite of scenarios. Limits are constantly reviewed and regularly 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 is part of our commitment to compliance with the Senior Managers and Certification Regime (SMCR).

Rothesay adopts the principles of a 'three lines of defence' model for effective risk management that provides a consistent, transparent and clearly documented allocation of accountability and segregation of functional responsibilities.

- **First line:** 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 control functions, whose responsibility it is to ensure the integrity of Rothesay's operations and reporting. These include operations, finance and legal.

  In 2021, a new committee, chaired by the Chief Financial Officer (CFO), was set up to focus on the control environment within Rothesay, the management of third party suppliers and the risks arising from new activities.
- **Second line:** Design and maintenance of the risk management framework as well as risk oversight is provided by the Chief Risk Officer (CRO), his team and risk management committees. The Chief Compliance Officer and his team report to the CRO. The Executive Risk Committee (ERC) (formerly known as the Working Level Risk Committee) is chaired by the CRO and consists of relevant senior managers working within a delegated risk management framework. This committee reviews all material new investment, hedging or liability transactions.
- **Third line:** Internal Audit provides the Board and Executive with comprehensive, independent, objective assurance over governance, risk management and internal control.

The Board has overall responsibility for the management of the exposure to risks and is supported by the Board Risk Committee (BRC) 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.

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

Our risks are grouped into one of six categories: strategy, insurance, market, credit, operational and liquidity risk. Rothesay has developed appropriate processes and documented procedures, appropriate controls and other risk mitigation techniques in order to manage them effectively. The policy framework ensures that an appropriate suite of risk management policies is maintained which set 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.

B. System of governance
continued

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

Rothesay has implemented a recovery and resolution framework which includes a comprehensive toolkit of actions that may be taken in order to improve solvency or liquidity at times of stress. In addition, the Rothesay operating model has been mapped in detail, including the interconnectedness of entities within Rothesay and the use of external vendors, allowing a robust resolution plan to be put in place in the extremely unlikely event that Rothesay was to enter into solvent run-off in the future.

Capability, resources and risk culture

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

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

Risk management and conduct are an integral part of Rothesay's performance review process.

B.3.2 Own Risk and Solvency Assessment (ORSA)

The ORSA represents a key component of Rothesay's risk management and strategic planning framework, requiring the risk profile of Rothesay to be thoroughly understood, including economic capital that should be held to support this risk profile based upon prevailing market conditions and also under stressed conditions across a five-year time horizon. A single Group-wide ORSA is prepared covering both RL and RLP. The report provides a comparison of capital requirements derived using Rothesay's own economic capital models and the statutory capital requirements calculated under Solvency II Pillar 1.

The ORSA process includes an assessment of our capital requirements over the next 12 months, in particular the amount of capital that would be required to withstand a 1-in-200 year event. A thorough risk identification exercise is performed to highlight those risks that should be captured within our economic capital model. The level of economic capital required is then derived using stresses consistent with the 99.5% confidence level movement over a 12-month timeframe. The capital available to Rothesay is recalculated under the movement of each risk factor.

Dependencies between risk factors are derived, based predominantly on observed correlations and a multivariate distribution for the capital available to the Group created by combining the marginal distributions and the dependencies. A Monte-Carlo simulation is run with 100,000 scenarios and the capital available to Rothesay determined in each. The capital requirement is determined as the 99.5% confidence level adverse change.

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

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

The ORSA includes consideration of the suitability of the Pillar 1 capital calculation versus those capital requirements derived from the Group's own view of risk/Pillar 2. For Pillar 1 purposes Rothesay presently utilises a partial internal model for spread and counterparty risks and the standard formula for all other risks. As part of the ORSA process, it has been assessed that the standard formula is materially appropriate for those risks not covered by the PIM, but nonetheless Rothesay will extend the internal model to cover all risks over time. As such, a full internal model is currently being developed.

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

B.3.3 Partial internal model (PIM)

Governance

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

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

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

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

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

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

Material changes to internal model governance

In October 2021, to improve efficiency and reduce duplication, the Economic Capital Modelling Working Group (ECMWG) was disbanded, and its responsibilities in relation to the internal model were absorbed into the Finance Committee, as outlined above. No other material changes have been made to internal model governance in 2021.

Validation approach

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

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

B. System of governance
continued

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

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

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

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

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

B.4 Internal control system

B.4.1 Internal control system

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

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

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

As noted earlier, in 2021, the Business Controls Committee, chaired by the CFO, was set up to focus on the control environment within Rothesay, the management of third party suppliers and the risks arising from new activities.

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

B.4.2 Compliance

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

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

1. Promote and maintain the highest cultural standards

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

2. Provide decisive assurance

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

3. Deliver independent, commercially-focused advice

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

4. Escalate issues quickly and engage stakeholders transparently

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

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

B.5 Internal audit function

Internal Audit is an independent function whose primary role is to help the Board and management to protect the assets, reputation and sustainability of Rothesay. Internal Audit performs audit activities designed to assess the adequacy and effectiveness of internal controls. The function provides written assessments, identifying issues and managements actions to senior management, the executive and the Board. The Internal Audit function also assists the Audit Committee in fulfilling its oversight responsibilities.

The Chief Auditor's (CA) direct reporting line is to the Chairman of the Audit Committee. On a day-to-day basis the CA also reports jointly to the CFO and Managing Director.

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

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

Neither the CA nor any internal audit staff perform any other controlled function including the compliance, risk management and actuarial functions.

Rothesay's Internal Audit function is fully resourced. Additional specialist resource is contracted as required.

Internal auditors that have been recruited internally will not audit activities or functions that they have performed in the last 12 months.

B. System of governance

continued

B.6 Actuarial function

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

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

Each of these activities is undertaken on at least an annual basis.

In addition to a number of direct reports, the Chief Actuary is supported by:

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

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

B.7 Outsourcing

With the exception of staff employed in the US by Rothesay Asset Management US LLC, RPML employs all of Rothesay's management and staff and provides services to the other companies in the Group.

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

- Risk software and some IT provision to Goldman Sachs.
- Pensions administration to Mercer Limited, Capita Pension Solutions Limited and WTW.
- Middle office operational activity (settlements and collateral management) to Northern Trust.
- UK payroll to Midland HR.
- International payroll and HR support to Vistra.
- Background checks to Verifile and First Advantage.

Although the transfer of the Prudential annuities was effective from 15 December 2021, administration will continue to be provided by Prudential Assurance Company on our behalf until it can be transferred to Rothesay's preferred strategic partner towards the end of 2022.

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

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

B.8 Any other information

B.8.1 PRA waivers and discretions

The table below provides a summary of the active waivers and discretions held by RLP as at 31 December 2021.

Date granted	Reference number	Permission
2 December 2015	2197307	Permission to apply a transitional deduction to our technical provisions.
7 November 2016	3106329	Permission to recalculate the transitional deduction as at 30 June 2016 to reflect the change in economic conditions between 10 March 2016 and 30 June 2016.
7 September 2018	4996708	Decision to classify £350m of loan notes issued by RLP in September 2018 as restricted tier 1 capital.
3 December 2018	4973403	Approval to use the PIM for the calculation of the SCR.
18 October 2019	5246647	Renewal of the decision to allow the Group to produce a single Group-wide SFCR (previously 3184816 which expired).
19 December 2019	5274984	Permission to make changes to the PIM, in particular to include Dutch mortgages.
19 December 2019	5278094	Permission to apply a matching adjustment as per a revised application and addendum covering Dutch mortgages and other changes.
24 December 2019	5434906	Permission to recalculate the transitional deduction as at 31 December 2019.
21 December 2020	2319	Requirement to produce an ORSA covering RLP and RL as a combined Group (previously 2199952 which expired).
4 February 2021	2469	Permission to recalculate the transitional deduction as at 31 December 2020 to reflect the change in economic conditions.
17 November 2021	3501	Decision to classify £450m of loan notes issued by RLP in October 2021 as restricted tier 1 capital.
13 December 2021	3621	Permission to recalculate the transitional deduction as at 31 December 2021.

C. Risk profile

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

The table below provides a breakdown of Rothesay's Solvency Capital Requirement (SCR) post-diversification benefit, between modules as at 31 December 2021 and 31 December 2020. Insurance risk relates mainly to longevity risk. Market risk is dominated by spread risk, i.e. the risk that credit spreads widen. The market risk proportion has remained unchanged at 64% of the SCR at the end of 2021. The breakdown of the SCR has not changed materially between 2020 and 2021.

Composition of SCR (%)	**2021**	2020
Market risk	**64**	64
Insurance risk	**24**	24
Operational risk	**6**	6
Counterparty risk	**6**	6

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

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

Changes in Rothesay's risk profile and emerging risks

2021 continued to be dominated by the impact of COVID-19 on our business operations and on financial markets.

Our market-leading risk management systems have allowed us to protect our balance sheet during adverse and volatile market conditions. During 2021, there has been considerable volatility in interest rates, exchange rates and inflation. At the same time, credit market conditions have continued to improve, with credit markets being stronger than the levels seen at the end of 2019. Buoyant credit markets increase the risk that creditor protections are inappropriately weakened or that risk-adjusted returns are inadequate and Rothesay has remained patient and cautious in making new investments over the year.

2021 has seen higher levels of inflation than have been experienced in recent years, with increases being most pronounced in relation to near-term inflationary expectations. Rothesay's biggest inflation exposure is to long-term rates of inflation, which we closely hedge using derivatives and inflation-linked assets and which we stress as part of our stress and scenario testing. However, we have also reviewed our investment portfolio to ensure that our counterparties can withstand the impact of higher levels of realised inflation, given potential impacts on input costs and margins.

Homeworking by Rothesay and our strategic business partners has had no material impact on our operations, with productivity remaining at a good level and risk controls continuing to work effectively.

In 2021, Rothesay wrote £3.0bn of new business. We now manage assets of over £62.5bn and insure the pensions of over 837,000 individuals.

We entered into two new reinsurance contracts in 2021 covering much of the business written in the last eighteen months and this means our reinsurance coverage is now 84% (2020: 87%). Longevity reinsurance reduces retained risk, reduces the capital intensity of new business and allows the release of capital held against existing business.

Rothesay has continued its strategy of investment in a diverse range of assets, but given market conditions in 2021, there have been fewer opportunities to invest in either liquid or illiquid assets that meet our target levels of return. During 2021, we have increased our investment in ERMs by £1.4bn and have also begun to fund fixed-for-term mortgages. Although both types of mortgage are secured on residential property, the risk profiles of ERMs and fixed-for-term mortgages are quite different. Where possible, we have continued to switch assets to improve risk-adjusted returns or to reduce the climate-related risk of our portfolio. 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 long-term impact of COVID-19 is still unclear. The long-term effectiveness of vaccination programmes is uncertain and the emergence of new variants of COVID-19 suggests that it may be some time before life returns to normal. Rothesay's evolving investment strategy, together with the backdrop of market volatility and uncertainty over the future impact of COVID-19, has meant that Rothesay's proactive approach to risk management has continued to be crucial in delivering Rothesay's strategic objectives and ensuring continued financial security for our policyholders.

Rothesay has continued to strengthen its control functions and the risk function, bringing in additional experts in credit risk, compliance and ESG. We have also strengthened our in-house internal audit capabilities.

There continue to be changes in accounting regulation, asset trading markets, pensions and tax, the effects of which are highly uncertain. The government's proposed reform of the leasehold market could have an adverse impact on Rothesay's loans secured on ground rents. In addition, the Treasury is consulting on changes to prudential regulation now that the UK is outside the EU (see solvency II reform).

Transition from LIBOR

The interest rate London Interbank Offer Rate (LIBOR) benchmark ceased on 31 December 2021 and our preparations meant that the transition to alternative rates went smoothly. We are also ensuring that we are appropriately prepared for the future transition of other benchmarks.

We are now using the Sterling Overnight Index Average (SONIA) as the basis for setting the risk-free rate under IFRS, Market Consistent Embedded Value (MCEV) and Solvency II.

Brexit

Rothesay is a UK insurer serving the domestic market, so our business model has been largely unaffected by the UK's withdrawal from the EU.

Rothesay has not experienced any issues with suppliers and counterparties and we have taken steps to ensure that our EU employees have the right to work in the UK.

We continue to monitor the impact of the withdrawal from the EU on regulations, taxes and accounting standards.

Solvency II reform

In June 2020, HM Treasury (HMT) announced that it would review certain features of the UK Solvency II regime to ensure that it is properly tailored to the UK insurance sector following the UK's withdrawal from the EU. HMT published a Call for Evidence in October 2020 to seek views on how this could be achieved and this was followed on 1 July 2021 by publication of its Response to the Call for Evidence setting out the responses received and the next steps in the reform of Solvency II.

The Prudential Regulation Authority (PRA) then launched a Quantitative Impact Study (QIS) to assist in the analysis of potential reform options and this was followed by a Qualitative Questionnaire in August 2021. Rothesay participated in both exercises. The QIS collected information covering a range of potential reforms to the risk margin and the matching adjustment under various economic scenarios. Likely changes include a sizeable reduction in the risk margin, changes to the matching adjustment and a relaxation of matching adjustment rules. A full consultation paper is expected from the Treasury in April 2022, which will set out detailed proposals intended to support insurers' ability to invest in long-term productive assets. This will be followed by a more detailed technical consultation by the PRA later in the year. Until these consultation papers are published, it is difficult to predict the likely impact of future reform on Rothesay's solvency position.

C. Risk profile
continued

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

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

Emerging risks
Rothesay has identified a number of emerging risks that could impact the business over the medium to long term.

Over the longer term there are risks relating to climate change and how this could impact Rothesay's investments.

We are also exposed to the risk of significant longevity improvements arising from developments such as new screening technologies, dementia management and pharmacological breakthroughs. Rothesay manages exposure to longevity risk through extensive use of longevity reinsurance and we also hold capital to cover a range of longevity scenarios.

More broadly, Rothesay continues to manage its affairs prudently such that we are not overexposed to one particular risk and so that we only accept risks which we understand and which are consistent with our risk appetite.

C.1 Insurance risk
Insurance risk is the risk of changes in the value of Rothesay's net financial 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 projection of annuity obligations used for pricing and reserving requires a number of actuarial assumptions to be made. Similar to other bulk annuity providers, the performance of the Rothesay's business will primarily depend on the actual experience of mortality rates and longevity improvements. Systemic changes in mortality rates could arise, for example, from a cure for a major disease (e.g. cancer) being found in the near term.

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

Longevity and other demographic risks are mitigated through:
- Strict underwriting criteria and the use of reinsurance targeting a majority of insured lives. Assumptions used in the projections are determined using historic experience, rating models or reinsurance pricing. Given the nature of the larger bulk annuities that Rothesay writes, the assumptions used can be derived specifically from the population under consideration.
- All reinsurance contracts entered by Rothesay have been implemented through the use of unfunded longevity swaps where no initial premium outlay is required. 84% of longevity risk on an IFRS basis was hedged as at 31 December 2021 (2020: 87%).

Insurance risk also includes expense risk, which is much less material for Rothesay. Expenses are managed through close monitoring of expenditure and careful budgeting.

As at 31 December 2021, the required capital for underwriting risk pre-diversification, based on the standard formula (classified as underwriting risk), is £1,647m (2020: £1,696m). Please refer to QRT S.25.02. Insurance risk decreased over the year as a result of reinsurance on new and existing business. This was offset by new business written. Information on risk exposures and concentration on an IFRS basis is included in notes E and F of the annual Report and Accounts.

C.2 Market risk

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

- Interest rate risk arises from discounting cash flow mismatches across all future dates. Profits and losses are generated through changes in the level, slope and curvature of interest rate curves. The risk is hedged closely by matching assets and liabilities and by using interest rate swaps. Consideration is given to Rothesay's IFRS, MCEV and solvency risk positions when determining the appropriate hedging strategy.
- Inflation rate risk results from mismatches in the index linkage of liabilities and assets. Profits and losses are generated through changes to the level, slope and curvature of inflation curves. The risk is hedged by 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, aggregated risk monitoring, consideration of ESG risks and low loan-to-value limits. Where the property risk becomes more material then prudent allowance is made for this within the credit risk adjustment.

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

The tables below show sensitivities on an IFRS basis to movements in interest rates and inflation. The change in the sensitivity of liabilities to interest rates and inflation during 2021 reflect market conditions, investment of premiums and additional reinsurance.

Interest rate risk sensitivity analysis

2021	Change in assumptions	Impact on net liabilities £m	Impact on Profit before tax £m	Impact on equity £m
Interest rate	**+100bps**	**(6,932)**	**(280)**	**(227)**
Interest rate	**-100bps**	**8,664**	**489**	**396**
Inflation	**+100bps**	**3,401**	**159**	**129**
Inflation	**-100bps**	**(3,177)**	**19**	**15**

2020	Change in assumptions	Impact on net liabilities £m	Impact on Profit before tax £m	Impact on equity £m
Interest rate	+100bps	(7,120)	(169)	(137)
Interest rate	-100bps	8,852	549	445
Inflation	+100bps	3,507	(48)	(39)
Inflation	-100bps	(3,111)	173	140

There was no change in the method used for deriving sensitivity information and significant variables during the year.

As at 31 December 2021 the required capital for market risk (including spread risk and concentration risk) pre-diversification is £2,922m (2020: £3,040m). The capital in relation to spread risk has been calculated using the PIM. Please refer to QRT S.25.02 and Section E.4.

C. Risk profile
continued

C.2 Market risk continued
C.2.1 Concentration risk
Rothesay mitigates concentration risk by investing in a diversified portfolio of assets and, where positions are more concentrated, seeking appropriate collateral or other forms of security. No investment positions lead to capital being held against concentration risk (2020: eight positions).

C.2.2 Prudent person principles
In line with the prudent person principles, and embedded within the investment policy, before investments are made consideration is given to a number of risk indicators to ensure that investments:
- Are of a suitable quality and security to meet policyholder liabilities;
- Are matching adjustment eligible (where relevant);
- The risks associated with the investment are well understood, can be modelled in our risk systems and are appropriately captured in our capital models;
- Can be suitably valued. Where relevant, valuation uncertainty for new investments is considered;
- Appropriately match liabilities by duration, currency and index-linkage;
- Take account of the liquidity needs of Rothesay;
- Meet concentration limits for individual assets and sector; and
- Appropriate resources are in place to manage the investment over time.

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

C.3 Credit risk
Credit risk represents the potential for loss, or solvency deterioration, due to the default or deterioration in credit quality of a counterparty or an investment we hold. In some instances this risk may arise as a result of climate change, for example the risk of stranded assets or the impact of climate change on a counterparty's assets. Credit risk also arises from cash placed with banks or money market funds, collateralised financing transactions (i.e. resale and repurchase agreements) and receivables from third parties.

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

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

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

The following table identifies derivatives and collateralised agreements covered by enforceable netting arrangements (netting under master netting agreements, cash collateral and security collateral) which do not qualify for netting under IAS 32.

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

	2021 Related amounts not offset				
	Financial assets 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	20,769	(16,326)	(654)	(3,743)	46
Collateralised agreements and financing	262	–	(88)	(174)	–
Total	21,031	(16,326)	(742)	(3,917)	46
Derivative liabilities	(20,688)	16,326	208	4,087	(67)
Collateralised financing agreements	(414)	–	–	414	–
Total	(21,102)	16,326	208	4,501	(67)

	2020 Related amounts not offset				
	Financial assets 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	30,700	(26,173)	(865)	(3,595)	67
Collateralised agreements and financing	1,727	–	(104)	(1,623)	–
Total	32,427	(26,173)	(969)	(5,218)	67
Derivative liabilities	(30,359)	26,173	306	3,913	33
Collateralised financing agreements	(894)	–	–	894	–
Total	(31,253)	26,173	306	4,807	33

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

As at 31 December 2021, the required capital for counterparty default risk pre-diversification is £361m (2020: £365m). The capital in relation to counterparty risk has been calculated using the PIM. Please refer to QRT S.25.02 and Section E.4. The impact on counterparty risk capital of the increase in longevity reinsurance has been offset by changes in market conditions. Information on risk exposures and concentration on an IFRS basis are included in note F of the annual Report and Accounts.

C. Risk profile
continued

C.4 Liquidity risk
Liquidity risk arises where timing differences and/or uncertainties occur between cash inflows and cash outflows. The objective of liquidity management is to ensure that Rothesay is capable of honouring all cash flow commitments on both an ongoing basis and in highly stressed scenarios, without incurring significant cost or business disruption.

Rothesay's liquidity policy is designed to ensure the availability of sufficient funds to meet cash flow requirements on a timely basis via:
- Maintenance of substantial excess liquidity. Rothesay seeks to enter into long-term, illiquid investments that match its liabilities in order to maximise the value of the illiquidity premium. To mitigate residual liquidity risk, Rothesay maintains substantial excess liquidity to meet a broad range of potential cash outflows in a stressed environment, including collateral outflows and financing obligations.
- 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.

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 Rothesay 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 BRC. The second line Risk function ensures that an appropriate framework is in place for assessing, monitoring and managing liquidity risk. Liquidity is managed for Rothesay as a whole, in addition to at a Solvency II fund level. Risks are monitored and controlled through strong oversight and independent control and support functions across the business.

Expected profits included in future premiums (EPIFP) amounted to £837m (2020: £773m). Future premiums are payable to Rothesay on unfunded longevity swap contracts we have written. In the event that no future premiums were received then the policyholder would be in breach of contract, i.e. the insured pension schemes do not have a unilateral right to stop paying premiums.

No capital is held to meet liquidity risk as capital is not an appropriate mitigant for liquidity risk. During 2021 the Group's liquidity position remained robust despite the impact of market movements on the value of Rothesay's derivatives and the associated collateral calls.

Please refer to QRT S.23. Information on risk exposures and concentration on an IFRS basis is included in note F of the annual report and accounts.

C.5 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 conduct 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 to explore key areas of operational risk, ensuring that the implications of adverse operational risk events crystallising are well understood and that, where appropriate, additional controls or contingency plans are introduced to improve operational resilience. Additional work was undertaken in 2021 to ensure that Rothesay complies with the FCA and PRA's expectations in this area and, in particular, Supervisory Statement SS1/21 "Operational resilience: Impact tolerances for important business services".

Rothesay has important outsourcing arrangements in place, which are subject to extensive due diligence at the point of entering into them, but also to ongoing review, with oversight provided by the Business controls Committee. Oversight of these arrangements considers the information security risk that Rothesay is exposed to, the performance of the third party with respect to service level agreements, and other relevant information (e.g. their ongoing creditworthiness, and where relevant their readiness to accommodate Rothesay's growth).

The management of the operational risk associated with Brexit, the COVID-19 pandemic and the transition from LIBOR is discussed at the beginning of Section C.

Rothesay insures the pensions of over 837,000 individual policyholders and is therefore exposed to conduct risk associated with unfair treatment of customers. Rothesay is also exposed to reputational risk both in relation to the way in which we treat customers and the way in which we undertake our other activities. Conduct risk is managed by the Compliance function and overseen by the Customer and Conduct Committee.

Rothesay employs financial models in our day-to-day activities to inform and manage the business. Rothesay has a dedicated second-line Model Risk Management team within the Risk function. Material errors in these models could expose Rothesay to losses and/or reputational damage.

Rothesay mitigates operational risk through our risk management framework and in particular:
- The risk and control self-assessment process which ensures that risks are appropriately identified and controlled;
- Scenario analysis covering a variety of potential operational risk events;
- Regular reporting, monitoring and oversight of operational risk events;
- A sub-committee of the ERC oversees the monitoring of third party suppliers according to a regular review cycle;
- Model risk is managed via a model control framework that identifies, validates and monitors models that are material to Rothesay;
- Rothesay seeks to mitigate cyber risk through robust processes and controls including data protection, penetration testing and staff training. Recognising the importance of cyber risk management, Rothesay maintains ISO 27001 and ISO 22301 accreditation;
- Rothesay seeks to mitigate taxation and financial reporting risk by focusing on compliance with relevant tax laws and financial reporting regulations; and
- Rothesay will not undertake tax planning that is contrived or artificial and Rothesay seeks to have an open, fair and proactive relationship with tax authorities at all times.

As at 31 December 2021, the required capital for operational risk based on the standard formula is £236m (2020: £241m). Please refer to QRT S.25.02.

C.6 Other material risks

C.6.1 Climate change risk

Rothesay's assets are exposed to the potential impact of climate change. Such risks include:
- physical risks such as increasing frequency and severity of flooding; and
- transition risks which can arise from the process of adjustment towards a low-carbon economy.

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

In line with this, we include disclosures consistent with the Task Force on Climate-related Financial Disclosures guidance in our annual report. We also published our inaugural ESG Report in July 2021, which sets out, amongst other things, our commitments and targets relating to climate risk and carbon emissions, how we manage climate risk (and other ESG risks), Rothesay's direct carbon emissions, and the carbon intensity of our investment portfolio.

C. Risk profile
continued

C.6 Other material risks continued
Climate-related risks are incorporated in Rothesay's risk management framework. The in-house investment and pricing teams assess climate-related risk (physical and transitional) as part of the transaction approval process and this assessment is reviewed and challenged by the second line risk function.

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

Building on the work conducted for the 2020 PRA insurance stress testing exercise climate change scenarios, Rothesay is developing its own climate change stress testing capabilities, engaging with a range of third party providers.

The potential financial impact of climate change is allowed for within the capital held against credit and market risk, where it is assessed to be relevant.

C.6.2 Other risks
Rothesay is exposed to the risk that a change in the regulatory, legal or political environment may have adverse consequences on Rothesay's business model, operations and financial performance. Rothesay is subject to UK regulation, and in particular Rothesay is required to comply with capital adequacy requirements. In addition, the UK's exit from the EU means that there is significant uncertainty about the future regulatory framework for UK insurers.

Political and regulatory developments may significantly impact the business and economic environment in which Rothesay operates.

Rothesay maintains 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.

No additional capital is held to meet these risks.

C.7 Any other information

C.7.1 Solvency II sensitivities

The table below provides a range of sensitivities as at 31 December 2021. Where applicable, allowance has been made for the impact of recalculating transitional solvency relief. The sensitivities show that Rothesay can withstand a wide range of stresses and that Rothesay is particularly sensitive to movements in interest rates. In order to mitigate this impact, Rothesay has implemented a dynamic capital management framework which seeks to protect both the solvency position and the embedded value of the business. In the results below, interest rates are assumed to fall progressively and hedging is adjusted accordingly:

31 December 2021	Change in assumptions	Impact on Own Funds £m	Impact on SCR £m	Impact on RL coverage ratio %
Annuitant mortality	**+5% qx**	**220**	**(67)**	**10%**
Annuitant mortality	**-5% qx**	**(234)**	**77**	**(11)%**
Interest rate	**+100bps**	**(351)**	**(561)**	**30%**
Interest rate	**-100bps**	**585**	**889**	**(31)%**
Inflation	**+100bps**	**414**	**347**	**(9)%**
Inflation	**-100bps**	**(191)**	**(237)**	**10%**
Credit spread widening (all non-government guaranteed assets)	**+100bps**	**(297)**	**(181)**	**3%**
Property value	**-10%**	**(96)**	**172**	**(13)%**
Expenses	**+10%**	**(71)**	**40**	**(4)%**

31 December 2020	Change in assumptions	Impact on Own Funds £m	Impact on SCR £m	Impact on RL coverage ratio %
Annuitant mortality	+5% qx	202	(66)	9%
Annuitant mortality	-5% qx	(214)	81	(10)%
Interest rate	+100bps	(350)	(637)	31%
Interest rate	-100bps	717	1,169	(34)%
Inflation	+100bps	297	388	(12)%
Inflation	-100bps	(95)	(233)	11%
Credit spread widening (all non-government guaranteed assets)	+100bps	(322)	(189)	2%
Property value	-10%	(90)	196	(13)%
Expenses	+10%	(88)	25	(4)%

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

C.7.2 COVID-19

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

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

D. Valuation for solvency purposes

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

	RL – Reconciliation IFRS balance sheet to SII balance sheet 2021	IFRS £m	Adjustments £m	Solvency II £m
	Collective investment schemes	**5,405**	**–**	**5,405**
	Government, sub sovereign, agency obligations, corporate bonds and other corporate debt	**44,486**	**193**	**44,679**
	Derivative assets	**20,769**	**–**	**20,769**
	Collateralised agreements and financing	**262**	**1**	**263**
	Loans secured on property	**7,411**	**224**	**7,635**
	Equity release mortgages	**5,329**	**–**	**5,329**
	Certificates of deposit	**183**	**–**	**183**
D1.1	**Total investments**	**83,845**	**418**	**84,263**
D1.3	Property, plant and equipment	**11**	**(11)**	**–**
D3.5	Lease - right of use asset	**30**	**–**	**30**
D1.4	Accrued interest and prepayments	**641**	**(417)**	**224**
D1.4	Receivables	**463**	**(1)**	**462**
D1.5	Cash and cash equivalents	**353**	**–**	**353**
D2.1	Reinsurance assets	**641**	**(4,228)**	**(3,587)**
D3.3	Deferred tax asset	**3**	**(3)**	**–**
	Own shares (held directly)	**–**	**72**	**72**
	Total assets	**85,987**	**(4,170)**	**81,817**
D1.1	Derivative and collateralised financing liabilities	**(21,102)**	**–**	**(21,102)**
D2.1	Insurance contract liabilities	**(54,030)**	**3,706**	**(50,324)**
D2.1	Reinsurance liabilities	**(1,217)**	**1,217**	**–**
D3.1	Payables	**(1,751)**	**(92)**	**(1,843)**
D3.5	Leasehold liabilities	**(42)**	**–**	**(42)**
D3.2	Borrowings	**(1,725)**	**(814)**	**(2,539)**
D3.3	Deferred tax liabilities	**–**	**(165)**	**(165)**
D3.4	Accruals and deferred income	**(71)**	**71**	**–**
	Total liabilities	**(79,938)**	**3,923**	**(76,015)**
	Net assets	**6,049**	**(247)**	**5,802**

	RL – Reconciliation IFRS balance sheet to SII balance sheet 2020	IFRS £m	Adjustments £m	Solvency II £m
	Collective investment schemes	4,286	–	4,286
	Government, sub sovereign, agency obligations, corporate bonds and other corporate debt	46,043	200	46,243
	Derivative assets	30,700	–	30,700
	Collateralised agreements and financing	1,727	7	1,734
	Loans secured on property	6,523	226	6,749
	Equity release mortgages	4,222	–	4,222
	Certificates of deposit	211	–	211
D1.1	**Total investments**	93,712	433	94,145
D1.3	Property, plant and equipment	8	(8)	–
D3.5	Lease - right of use asset	34	–	34
D1.4	Accrued interest and prepayments	663	(433)	230
D1.4	Receivables	929	(1)	928
D1.5	Cash and cash equivalents	293	–	293
D2.1	Reinsurance assets	616	(3,557)	(2,941)
D3.3	Deferred tax asset	5	(5)	–
	Own shares (held directly)	–	77	77
	Total assets	96,260	(3,494)	92,766
D1.1	Derivative and collateralised financing liabilities	(31,253)	(1)	(31,254)
D2.1	Insurance contract liabilities	(55,247)	3,799	(51,448)
D2.1	Reinsurance liabilities	(993)	993	–
D3.1	Payables	(2,354)	(92)	(2,446)
D3.5	Leasehold liabilities	(40)	–	(40)
D3.2	Borrowings	(1,426)	(447)	(1,873)
D3.3	Deferred tax liabilities	–	(225)	(225)
D3.4	Accruals and deferred income	(72)	72	–
	Total liabilities	(91,385)	4,099	(87,286)
	Net assets	4,875	605	5,480

D. Valuation for solvency purposes
continued

The material classes of assets shown on RLP's Solvency II balance sheet, the Solvency II values and values for the corresponding assets shown in RLP's financial statements are summarised in the table below:

	RLP – Reconciliation IFRS balance sheet to SII balance sheet 2021	IFRS £m	Adjustments £m	Solvency II £m
	Collective investment schemes	5,405	–	5,405
	Government, sub sovereign, agency obligations, corporate bonds and other corporate debt	44,486	193	44,679
	Derivative assets	20,769	–	20,769
	Collateralised agreements and financing	262	–	262
	Loans secured on property	7,411	241	7,652
	Equity release mortgages	5,329	144	5,473
	Certificates of deposit	183	–	183
D1.1	**Total investments**	83,845	578	84,423
D1.2	Investments in subsidiaries	13	–	13
D1.3	Property, plant and equipment	11	(11)	–
D3.5	Lease - right of use asset	30	–	30
D1.4	Accrued interest and prepayments	641	(417)	224
D1.4	Receivables	785	(160)	625
D1.5	Cash and cash equivalents	159	–	159
D2.1	Reinsurance assets	641	(4,228)	(3,587)
	Total assets	86,125	(4,238)	81,887
D1.1	Derivative and collateralised financing liabilities	(21,102)	–	(21,102)
D2.1	Insurance contract liabilities	(54,030)	3,706	(50,324)
D2.1	Reinsurance liabilities	(1,217)	1,217	–
D3.1	Payables	(1,682)	(90)	(1,772)
D3.5	Leasehold liabilities	(42)	–	(42)
D3.2	Borrowings	(1,725)	(814)	(2,539)
D3.3	Deferred tax liabilities	(119)	(167)	(286)
D3.4	Accruals and deferred income	(69)	69	–
	Total liabilities	(79,986)	3,921	(76,065)
	Net assets	6,139	(317)	5,822

	RLP – Reconciliation IFRS balance sheet to SII balance sheet 2020	IFRS £m	Adjustments £m	Solvency II £m
	Collective investment schemes	4,286	–	4,286
	Government, sub sovereign, agency obligations, corporate bonds and other corporate debt	46,043	200	46,243
	Derivative assets	30,700	–	30,700
	Collateralised agreements and financing	1,727	7	1,734
	Loans secured on property	6,523	231	6,754
	Equity release mortgages	4,222	70	4,292
	Certificates of deposit	211	–	211
D1.1	**Total investments**	93,712	508	94,220
D1.2	Investments in subsidiaries	13	–	13
D1.3	Property, plant and equipment	7	(7)	–
D3.5	Lease - right of use asset	34	–	34
D1.4	Accrued interest and prepayments	663	(433)	230
D1.4	Receivables	1,124	(74)	1,050
D1.5	Cash and cash equivalents	186	–	186
D2.1	Reinsurance assets	616	(3,557)	(2,941)
	Total assets	96,355	(3,563)	92,792
D1.1	Derivative and collateralised financing liabilities	(31,253)	(1)	(31,254)
D2.1	Insurance contract liabilities	(55,247)	3,799	(51,448)
D2.1	Reinsurance liabilities	(993)	993	–
D3.1	Payables	(2,294)	(90)	(2,384)
D3.5	Leasehold liabilities	(40)	–	(40)
D3.2	Borrowings	(1,426)	(447)	(1,873)
D3.3	Deferred tax liabilities	(82)	(231)	(313)
D3.4	Accruals and deferred income	(70)	70	–
	Total liabilities	(91,405)	4,093	(87,312)
	Net assets	4,950	530	5,480

D. Valuation for solvency purposes

continued

D.1 Valuation of assets and financial liabilities

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

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

D.1.1 Financial investments and financial liabilities

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

As noted during prior years, a number of portfolios of ERMs have been transferred from RLP to LTMF and a series of notes issued to the matching and non-matching adjustment funds of RLP. During 2021, a further £1bn of loans were transferred from RLP to LTMF. During 2018, loans secured on ground rents were transferred to RMA1 and notes issued to RLP, no further transfers have since been made. During December 2020, €0.5bn of Dutch mortgage loans were transferred from RLP to RMA3 and a series of notes issued. During 2021, a further €0.5bn of Dutch mortgage loans were transferred from RLP to RMA3.

Under IFRS, the notes do not appear on the balance sheet of either RL or RLP. This is also the case for RL under Solvency II. However, under Solvency II, the notes are shown on the RLP balance sheet. The notes issued by LTMF are included in mortgages and the notes issued by RMA1 and RMA3 are considered to be loans secured on property. As a result, the restructuring of RMA1 has no impact on the breakdown of financial investments. However, the value of the notes issued by LTMF and RMA3 includes cash balances which under IFRS are included in receivables. Over time, these balances have increased to £144m and £16m respectively (2020: £70m and £5m) so for RLP this has resulted in a reduction in receivables and a corresponding increase in the value of mortgages and loans secured on property.

For the purposes of the reconciliation between IFRS and Solvency II, the adjustment to loans secured on property includes an uncollateralised corporate loan with market value of £149m, which has been reclassified from corporate bonds and other corporate debt to align with Solvency II classifications (2020: £150m).

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

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

D.1.2 Investment in subsidiaries

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

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

D.1.3 Property, plant and equipment

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

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

There are, however, presentational differences due to accrued interest being included within financial investments on a Solvency II basis and excluded on an IFRS basis (except in relation to ERMs).

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

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

D.2 Technical provisions
Please refer to QRT S.12.01.

Technical provisions are the sum of a best estimate of liabilities allowing for reinsurance inwards and a risk margin. As part of the transitional arrangements in relation to the introduction of Solvency II, Rothesay is permitted to take credit for transitional solvency relief which acts as a deduction from the technical provisions. The table below shows the technical provisions of Rothesay. The transitional solvency relief shown for 31 December 2021 allows for the impact of recalculation on that date and for amortisation of 5/16ths of the allowance (2020: 4/16ths of the allowance):

	2021 £m	2020 £m
Gross best estimate liabilities	**49,575**	50,755
Risk margin (unaudited)	**2,204**	2,295
Transitional solvency relief (gross of tax impact) (unaudited)	**(1,455)**	(1,602)
Insurance contract liabilities	**50,324**	51,448
Reinsurance liabilities	**3,587**	2,941
Net technical provisions	**53,911**	54,389

Net technical provisions fell from £54.4bn as at 31 December 2020 to £53.9bn as at 31 December 2021 largely as a result of the increase in long-term interest rates, partially offset by the increase in assumed long-term rates of inflation and the impact of new business net of the run-off of the liabilities.

D.2.1 Best estimate and reinsurance liabilities
Best estimate liabilities (BEL) are calculated by discounting the projected cash flows based on our best estimate assumptions with regard to future demographic experience. Cash flows include benefits and claims, future contractual premiums and expenses. The BEL is calculated gross of reinsurance, although the cash flow projections include reinsurance-related cash flows in order to allow the reinsurance liabilities to be separately calculated.

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

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

D. Valuation for solvency purposes
continued

D.2 Technical provisions continued

Transfer of Prudential annuities
Prior to the transfer of the Prudential annuities to Rothesay, the best estimate liabilities relating to those annuities were shown net of the impact of associated reinsurance. The transfer involves both the transfer of the annuities and the associated reinsurance. As a result, Rothesay's gross best estimate liabilities decreased by approximately £0.5bn and Rothesay's reinsurance liabilities increased by the same amount. The net technical provisions are unchanged.

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

	2021		2020	
	Pensions originated	**Insurance originated**	Pensions originated	Insurance originated
Males	**101.0% S2PMA**	**96.8% S2PMA**	100.5% S2PMA	95.6% S2PMA
Females	**101.0% S2PFA**	**96.8% S2PFA**	100.5% S2PFA	95.6% S2PFA

	Future mortality improvements	
	2021	2020
Males	**CMI_2020*_M[1.7%; Sκ=7.5]**	CMI_2019*_M [1.7%; Sκ=7.5]
Females	**CMI_2020*_F[1.7%; Sκ=7.5]**	CMI_2019*_F [1.7%; Sκ=7.5]

* Calibration ages 20-90

For pension scheme originated business, ultimate mortality has been used in all cases and past mortality improvements are applied assuming the base mortality rates are as at 2007. 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 2021. The best estimate base mortality assumptions used in the valuation are based on this actual mortality experience. For 2021, an adjustment has been made to largely offset the observed impact of COVID-19, given the uncertainty of the long-term effect on base mortality rates. Mortality assumptions are generally set with reference to a Rothesay-specific suite of mortality tables. For the purpose of our reporting disclosures, these have been expressed as a single adjustment equivalent to the CMI S2 series of mortality tables drawn up by the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries. The S2 tables are based on industry-wide experience. For the S2 tables, past mortality improvements are applied assuming the base mortality rates are as at 2007.

The changes to the single equivalent rates over 2021 reflect the inclusion of new business, differences from expected mortality in recent years, observed longevity reinsurance market pricing, the impact of updating the mortality improvements used to roll the base tables forward to the current date and the COVID-19 adjustment.

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. For 2021, mortality improvement assumptions were updated to adopt the CMI 2020 improvement model. The CMI 2020 model places no weight on 2020 data, removing the impact of COVID-19 from our long-term rates assumption. For both 2020 and 2021, 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 above are expressed as core CMI model long-term rates and are equivalent on a present value basis to the actual long-term rate adopted. The best estimate long-term improvement rates have remained unchanged through 2021 and 2020. Initial rates of improvements as at 31 December 2021 remain consistent with those used at 31 December 2020. The initial adjustment parameter has not been adopted, with adjustment to the initial rate of mortality improvements continuing to be made through the Sk parameter.

The changes to the demographic assumptions led to an increase in Own Funds of £76m, including recalculation of transitional solvency relief.

Discount rate

The discount rate used to discount the cash flows for the purpose of calculating the technical provisions is the Solvency II basic risk-free term structure. On 31 July 2021 this rate switched from a rate based on LIBOR to SONIA.

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

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

As at 31 December 2021, the matching adjustment was approximately equal to 98 basis points (2020: 99bps). The decrease in matching adjustment has arisen from the change in the mix of assets used to the back the liabilities in the matching adjustment fund, along with changes in market conditions and the impact of the change in the derivation of risk free rates. Use of the matching adjustment had the impact of reducing the best estimate liabilities for the business in the matching adjustment fund by around 13% (2020: 13%).

Losing matching adjustment approval is a very remote risk for the business as we have appropriate controls in place to ensure ongoing matching adjustment compliance and have regular dialogue with the PRA about our approach to matching. However, insurers using the matching adjustment are required to disclose the impact on the balance sheet of not applying the matching adjustment. Without the matching adjustment, the BEL would increase by £7.1bn (2020: £7.8bn), although this would be offset by an increase in transitional solvency relief leaving Own Funds £3.4bn lower (unaudited) as at 31 December 2021 (2020: £3.0bn lower (unaudited)).

However, as can be seen in S.22, the SCR would also increase by around 192% (2020: 180%) without the matching adjustment. This would lead to SCR coverage at RL of 48% (2020: 41%) and 49% (2020: 41%) at RLP. The MCR would also increase by around 139% (2020: 133%). This would lead to MCR coverage for both RLP and RL above 120% (2020: both RLP and RL above 125%). The amounts in this paragraph are not subject to audit. No volatility adjustment is applied.

The valuation rate of interest used includes an allowance for investment management expenses of 3bps per annum (2020: 3bps per annum).

D. Valuation for solvency purposes

continued

D.2 Technical provisions continued

Expenses

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

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

The allowance made for future maintenance expenses was updated at the end of 2021 following an investigation into the total costs incurred by Rothesay during 2021 and projected expenses, allowing for efficiency gains as a result of transferring the Prudential annuities to Rothesay's third party administrator.

The insurance contract liabilities include both the projected expenses payable under the third party administration agreements and the long-term business overhead expenses expressed as an amount per policy. Allowance for future expense inflation has been provided to cover the impact of both salary and price inflation. The future rate of expense inflation is assumed to be RPI (as implied by the RPI swap curve) plus an addition at each duration of 0.25% p.a. for third party administrator expenses (2020: 0.25% p.a.).

On average, the overall expense allowance included in the cash flows is equivalent to £35 per policy per annum (2020: £36 per policy per annum).

Other assumptions

An important actuarial assumption relates to the future rate of escalation of certain annuity benefits. Where possible, such rates are derived from inflation swap markets. Whilst that is still the case for more liquid inflation rates, the limited price indexation (LPI) market has become highly illiquid and all but a very small number of banks have withdrawn from the market, leading to rates which are out of line with the LPI rates actually realised. We therefore project LPI rates using our own inflation models.

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

The modelling of member options allows for the probability that deferred annuitants choose to transfer their benefits each year. The cash flow profile resulting from the assumed take-up of member options impacts the composition of the basket of assets used to derive the valuation rate of interest. The ability of deferred annuitants to convert all or part of their pension to cash represents the only options available to policyholders and as such is the only modelled policyholder behaviour.

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

D.2.2 Risk margin

This section is not subject to audit.

The risk margin is the cost of transferring non-hedgeable risks. For Rothesay, this includes longevity and expense risk, counterparty default risk in relation to reinsurance and operational risk. When calculating the risk margin, the SCR associated with non-hedgeable risks is assumed to remain a constant proportion of the BEL (method 2 under EIOPA's guidelines on the valuation of technical provisions). Since 2018 the SCR in relation to counterparty risk has been calculated using the PIM.

D.2.3 Transitional solvency relief

This section is not subject to audit.

Rothesay is permitted to take credit for transitional solvency relief in relation to business written before 1 January 2016. Transitional solvency relief amortises linearly to zero, falling by 1/16th on 1 January 2017 and again each year thereafter. We re-calculated the transitional on 31 December 2021, as we are required to do so every two years.

As at 31 December 2021, transitional solvency relief was £1,455m gross of the impact of tax after allowing for amortisation of 5/16ths on 1 January 2021 (2020: £1,602m allowing for amortisation of 4/16ths on 1 January 2020). Transitional solvency relief is calculated using transitional measures on technical provisions. Transitional measures on interest rates are not applied.

Use of transitional solvency relief increases the deferred tax liability on a Solvency II basis as it leads to the net technical provisions being less than the IFRS liabilities. This is discussed in Section D.3.3.

Insurers using transitional solvency relief are required to disclose the impact on the balance sheet of not using transitional solvency relief. In the absence of transitional solvency relief, Rothesay's Own Funds would reduce by £1,091m after allowing for the associated impact of tax on Own Funds (2020: £1,298m). There is a second order effect on the SCR from removal of transitional measures due to tax effects. Without allowance for transitional solvency relief Rothesay coverage would be 179% (2020: 152%) and RLP's coverage would be 181% (2020: 154%).

D.2.4 Uncertainty associated with the value of technical provisions

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

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

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

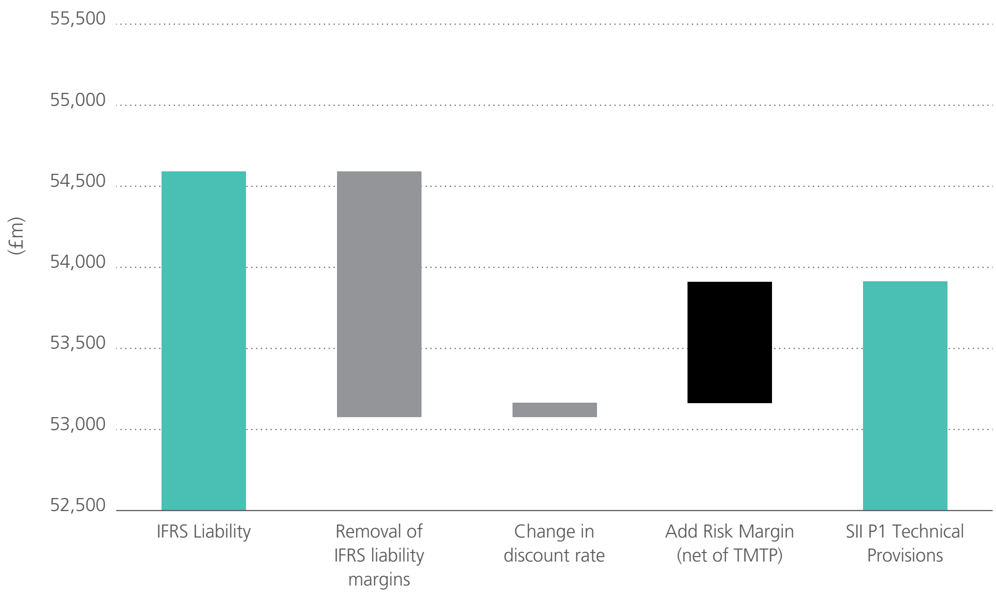
Further operational risks exist as covered in Section C.5.

D. Valuation for solvency purposes
continued

D.2 Technical provisions continued
D.2.5 Comparison of Solvency II technical provisions and IFRS liabilities
The main differences between the Solvency II technical provisions and IFRS liabilities arise due to:
- Solvency II uses best estimate assumptions whereas the IFRS assumptions include a margin of prudence;
- Differences in the valuation rate of interest used; and
- Inclusion of the risk margin (net of transitional measures) under Solvency II.

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

Reconciliation from IFRS liabilities to SII technical provisions as at 31 December 2021



The differences in the discount rates arise predominantly from:
- Differences between the prudent IFRS credit default allowance and Solvency II fundamental spreads;
- Differences between the assets hypothecated for the yield calculation through calculation methodology differences and differences in liability profiles under IFRS and Solvency II; and
- Exclusion under Solvency II of certain single premium liabilities not eligible for matching adjustment.

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

D.3 Other liabilities
Please refer to QRT S.02.01.

D.3.1 Payables
Payables are carried at amortised cost for IFRS purposes. Rothesay considers that there are no material differences between an amortised cost and mark-to-market valuation for these payables and therefore there are no differences between the IFRS and Solvency II valuation except for presentational differences.

D.3.2 Borrowings

Under IFRS, borrowings are held at amortised cost whereas under Solvency II the value of borrowings is updated to take account of changes in the relevant risk-free interest rate curve and market-based spread. As at 31 December 2021 this leads to differences in valuation under Solvency II of £6m (2020: £81m).

Under IFRS, the value of borrowings include £15m (2020: £15m) of finance costs which are netted against the IFRS valuation of the debt. These finance costs are inadmissible for solvency II purposes.

Note that accrued interest of £33m is included in payables rather than in the value of borrowings.

Under IFRS, the £800m (2020: £350m) of GBP denominated RT1 notes (valued under IFRS at £793m, 2020: £350m) are accounted for as equity and hence do not appear in borrowings. Under Solvency II these notes are included in borrowings and are valued at £811m (2020: £378m). This difference has increased significantly because of new RT1 issuance (see below).

New RT1 notes

On 13 October 2021 and 27 October 2021 respectively, Rothesay issued £450m of RT1 notes with a fixed 5% coupon payable semi-annually in arrears and $400m of RT1 notes with a fixed 4.875% coupon payable semi-annually in arrears. The notes were issued through the public debt markets.

The GBP notes are callable on or after 13 October 2031 and the USD notes are callable on or after 13 April 2027.

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

D.3.3 Deferred tax

The deferred tax asset under IFRS arises from a temporary difference between the financial statements and the tax deductions generated in relation to transitional adjustments following changes to the basis of insurance taxation in 2012, as well as equity compensation timing differences.

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

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

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

D.3.4 Accruals and deferred income

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

D.3.5 Leasehold liabilities and right of use asset

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

D. Valuation for solvency purposes
continued

D.3 Other liabilities continued

D.3.6 Contingent liabilities

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

a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

b) A present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.

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

Rothesay does not consider that it has any contingent liabilities.

D.4 Alternative methods for valuation

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

- **Corporate bonds and other corporate debt –** These mainly comprise private secured notes which are valued using discounted future cash flow models using spreads derived from observable spreads from similar assets in terms of credit quality and duration and applying additional illiquidity adjustments informed by recent transactions and indicative market quotes.
- **Derivative assets –** Rothesay uses derivative contracts for the purposes of efficient portfolio management and to mitigate the risk of adverse market movements. Rothesay's derivative contracts consist primarily of OTC derivatives. Such derivatives are not quoted in an active market and are generally valued using market transactions and other market evidence, including market-based inputs to models, calibration to market clearing transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations and the relationship of recent market activity to the prices provided from alternative pricing sources. Given the highly illiquid market for LPI, we have adjusted the value of our LPI-linked derivatives to allow for a bid-mid spread.
- **Loans secured on property –** These are valued using discounted future cash flow models using spreads derived from observable spreads from similar assets in terms of credit quality, loan-to-value ratio, sector and duration and applying additional illiquidity adjustments informed by recent transactions and indicative market quotes. Where possible, underlying property valuations are based on recent independent valuations and other market data.
- **Equity release mortgages –** Equity release mortgages are valued using a discounted cash flow model by projecting future net cash flows on a closed form basis allowing for demographic assumptions, consistent with those used for insurance contracts adjusted for transfer to long-term care, prepayment rates, future expenses and potential cost of providing the no negative equity guarantee (NNEG). Cash flows are then discounted at a risk-free rate plus liquidity premium inferred from market-observed levels.

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

The valuation uncertainty of the level 3 assets has been assessed by considering the impact of adjusting the key valuation assumptions, predominately the discount rate, to reasonably possible alternative discount rates for the relevant asset. Further details on Rothesay's accounting policy for the valuation of Level 3 assets, including assumptions used, valuation uncertainty to material inputs, and comparison of the valuations against experience, can be found in note D.2 of the annual Report and Accounts.

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

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

D.5 Any other information

D.5.1 COVID-19

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

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

E. Capital management

E.1 Own Funds

E.1.1 Capital management objectives

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

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

Under the Solvency II regime, Rothesay is required to hold the greater of the capital required under the Pillar 1 framework and the capital required under our own economic capital models, Pillar 2. In practice, it is the Pillar 1 requirement which is more onerous.

Rothesay aims to maintain solvency coverage in the range of 130% to 150% of the regulatory minimum solvency capital requirement (SCR). We started the year with capital surplus well above our target operating range and Rothesay's solvency position has remained robust throughout the period despite considerable market volatility. In 2021, we issued £740m of Restricted Tier 1 (RT1) capital (denominated in sterling and US dollars) in preparation for anticipated new business volumes, so our capital position is now even further above our target operating range.

If solvency coverage exceeds 150% of SCR, the Board considers the requirement for excess Own Funds to meet future opportunities or consider returning capital to shareholders. The Board has considered this during 2021 and given anticipated new business volumes, no distribution has been made.

Rothesay has implemented a dynamic capital management framework which uses interest rate and other hedging to try to protect both the solvency position and the embedded value of the business.

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

There are no fungibility or transferability restrictions across Rothesay.

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

E.1.2 Analysis of Own Funds

Please refer to QRT S.23.01.

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

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

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

As at 31 December 2021 (£m)	Ref	Total	Unrestricted tier 1	Restricted tier 1	Tier 2	Tier 3
Ordinary share capital	E.1.2.1	**3**	**3**	**–**	**–**	**–**
Share premium account	E.1.2.1	**1,545**	**1,545**	**–**	**–**	**–**
Reconciliation reserve (adjusted)	E.1.2.2	**4,182**	**4,182**	**–**	**–**	**–**
Subordinated liabilities	E.1.2.3	**2,539**	**–**	**1,103**	**948**	**488**
Total basic Own Funds		**8,269**	**5,730**	**1,103**	**948**	**488**
Total eligible Own Funds available to meet the SCR		**8,269**	**5,730**	**1,103**	**948**	**488**
Total eligible Own Funds available to meet the MCR		**7,056**	**5,730**	**1,103**	**223**	**–**

As at 31 December 2020 (£m)	Ref	Total	Unrestricted tier 1	Restricted tier 1	Tier 2	Tier 3
Ordinary share capital	E.1.2.1	3	3	–	–	–
Share premium account	E.1.2.1	1,545	1,545	–	–	–
Reconciliation reserve (adjusted)	E.1.2.2	3,856	3,856	–	–	–
Subordinated liabilities	E.1.2.3	1,873	–	377	984	512
Total basic Own Funds		7,277	5,404	377	984	512
Total eligible Own Funds available to meet the SCR		7,277	5,404	377	984	512
Total eligible Own Funds available to meet the MCR		6,006	5,404	377	225	–

Tier 2 funds eligible to meet the MCR are capped at 20% of the MCR as at 31 December 2021 and 31 December 2020.

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

As at 31 December 2021 (£m)	Ref	Total	Unrestricted tier 1	Restricted tier 1	Tier 2	Tier 3
Ordinary share capital	E.1.2.1	**510**	**510**	**–**	**–**	**–**
Share premium account	E.1.2.1	**1,953**	**1,953**	**–**	**–**	**–**
Reconciliation reserve (adjusted)	E.1.2.2	**3,359**	**3,359**	**–**	**–**	**–**
Subordinated liabilities	E.1.2.3	**2,539**	**–**	**1,103**	**948**	**488**
Total basic Own Funds		**8,361**	**5,823**	**1,103**	**948**	**488**
Total eligible Own Funds available to meet the SCR		**8,361**	**5,823**	**1,103**	**948**	**488**
Total eligible Own Funds available to meet the MCR		**7,148**	**5,823**	**1,103**	**223**	**–**

E. Capital management
continued

E.1 Own Funds continued

As at 31 December 2020 (£m)	Ref	Total	Unrestricted tier 1	Restricted tier 1	Tier 2	Tier 3
Ordinary share capital	E.1.2.1	510	510	–	–	–
Share premium account	E.1.2.1	1,953	1,953	–	–	–
Reconciliation reserve (adjusted)	E.1.2.2	3,017	3,017	–	–	–
Subordinated liabilities	E.1.2.3	1,873	–	377	984	512
Total basic Own Funds		7,353	5,480	377	984	512
Total eligible Own Funds available to meet the SCR		7,353	5,480	377	984	512
Total eligible Own Funds available to meet the MCR		6,083	5,480	377	225	–

Tier 2 funds eligible to meet the MCR are capped at 20% of the MCR as at 31 December 2021 and 31 December 2020.

E.1.2.1 Ordinary share capital and share premium
As at 31 December 2021 Rothesay had an aggregate issued and paid up ordinary share capital of £3.0m (2020: £3.0m) and share premium of £1,545m (2020: £1,545m). RLP had an aggregate issued and paid up ordinary share capital of £510m (2020: £510m) and share premium of £1,953m (2020: £1,953m).

E.1.2.2 Reconciliation reserve
The reconciliation reserves disclosed on form S.23.01.21 for RLP of £3.4bn (2020: £3.0bn) consists of the excess of assets over liabilities adjusted by ordinary share capital, share premium and foreseeable charges. The reconciliation reserves disclosed on form S.23.01.22 for Rothesay Group of £4.2bn (2020: £3.8bn) consists of the excess of assets over liabilities adjusted by ordinary share capital, share premium, own shares held and foreseeable charges.

E.1.2.3 Subordinated liabilities
During 2021, RLP issued £450m of perpetual RT1 debt with a call date 13 April 2032 and $400m (£293m) of perpetual RT1 debt with a call date 13 April 2027. Note that in the table below, the Solvency II values exclude accrued interest of £33m as this has been included within payables.

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

Solvency II classification	Public/ private	Coupon	Issue date	Maturity date	Call date	Issue amount (£m)	**Solvency II value 2021(£m)**
Tier 2	Public	8%	22/10/15	22/10/25	No call option	250	**258**
Tier 2	Private	6.05%	19/09/17	19/09/28	19/09/23 and annually thereafter	300	**296**
Restricted tier 1	Public	6.875%	05/09/18	Perpetual	05/09/28 and every 5 years thereafter	350	**360**
Tier 3	Public	3.375%	12/07/19	12/07/2026	No call option	500 (in three issues)	**488**
Tier 2	Public	5.5%	17/09/19	17/09/29	17/09/24	400	**394**
Restricted tier 1	Public	5%	13/10/21	Perpetual	13/10/31	450	**452**
Restricted tier 1	Public	4.875%	27/10/21	Perpetual	13/04/27	289 ($400m)	**293**

As part of our LIBOR transition programme, with effect from 19 December 2020, the private loan was converted from a floating rate loan to a fixed rate loan with the coupon fixed at 6.05%. The fair value of the loan was unchanged as a result of the conversion.

E.1.3 Movement in Own Funds

The table below provides an analysis of the movement in Own Funds net of tax under Solvency II for 2021 and 2020 for both RLP and Rothesay Limited. All numbers are shown net of tax and allow for the impact of matching adjustment and changes in transitional solvency relief (where applicable).

	RL		RLP	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Opening Solvency II balance as at 31 December	**7,277**	6,132	**7,353**	6,113
Amortisation of 1/16th of transitional on 1 January	**(108)**	(88)	**(108)**	(88)
New business (on a fully invested basis)	**58**	5	**58**	5
Impact of temporarily being invested in gilts	**(87)**	(218)	**(87)**	(218)
Impact from investing prior year's premiums	**227**	606	**227**	606
Performance of in-force book	**360**	541	**371**	631
Non-economic assumption changes	**126**	192	**126**	192
Acquisition costs and administration expenses	**(200)**	(172)	**(196)**	(167)
Borrowing costs	**(115)**	(108)	**(114)**	(108)
Non-recurring and project expenditure	**(25)**	(34)	**(25)**	(34)
Economic conditions	**23**	421	**23**	421
New capital issuance	**733**	–	**733**	–
Closing balance as at 31 December	**8,269**	7,277	**8,361**	7,353

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

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

	RL		RLP	
	2021 £m	2020 £m	**2021 £m**	2020 £m
IFRS equity capital	**6,049**	4,875	**6,139**	4,950
Inadmissible assets	**(26)**	(24)	**(25)**	(23)
Reserving differences	**811**	930	**811**	930
Tier 1 restricted and other capital adjustments	**(1,032)**	(301)	**(1,103)**	(377)
SII excess of assets over liabilities	**5,802**	5,480	**5,822**	5,480
Tier 1 restricted, Tier 2 and Tier 3 debt	**2,539**	1,873	**2,539**	1,873
Other capital adjustments	**(72)**	(76)	**–**	–
Own Funds	**8,269**	7,277	**8,361**	7,353

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

E. Capital management

continued

E.2 SCR and MCR

This section is not subject to audit.

E.2.1 Solvency Capital Requirement (SCR)

The consolidated SCR is calculated as set out in Article 336 of the Delegated Acts, i.e., as the sum of:

- The SCR on consolidated data for all wholly owned insurance subsidiaries of RL and all wholly owned service subsidiaries of RL; and
- Capital requirements with respect to other relevant undertakings (RPML) as defined in Article 336 of the SII Delegated Acts.

As at 31 December 2021, the SCR for RLP and RL, which is calculated using the PIM for credit and counterparty risk capital and standard formula for other risk components and for aggregation across risk components was £3,657m (2020: £3,623m). The table below provides a breakdown of the SCR by risk module for RLP (please refer to QRT S.25.02.21 and S.28.01.01):

	2021 £m	2020 £m
Total market risk	**2,922**	3,040
Total underwriting risk	**1,647**	1,696
Total counterparty default risk	**361**	365
Total operational risk	**236**	241
Total pre-diversification	**5,166**	5,342
Diversification	**(929)**	(961)
Capital add-on	**69**	69
Loss absorbing capacity of deferred taxes	**(649)**	(827)
Total SCR	**3,657**	3,623

In determining the operational risk capital, gross earned life premiums have been determined from gross written life premiums using an amortisation schedule that has been agreed with the PRA. Standard formula appropriateness has been assessed by Rothesay and a voluntary capital add-on of £69m has been agreed with the PRA (2020: £69m). The capital add-on captures risks not covered by the standard formula, predominantly the risk that a higher proportion of pensioners than assumed have dependants and the inflation risk associated with inflation-linked liabilities.

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

The reduction of £649m (2020: a reduction of £827m) in respect of the loss absorbing capacity of deferred taxes (LACDT) is derived as shown below.

	2021 £m	2020 £m
LACDT justified by reversion of deferred tax liabilities	**(168)**	(231)
LACDT justified by reference to probable future taxable economic profit	**(313)**	(323)
LACDT justified by carry back, current year	**(168)**	(273)
Total LACDT	**(649)**	(827)

The reversion of deferred tax liabilities reflects the reversal of differences between deferred tax liabilities as reported on S.02 and those reported on an IFRS basis. Probable future taxable economic profits are calculated based on conservative new business assumptions compared to the Group business plan. No allowance is made for the release of the risk margin when considering future profits. The adjustment justified by current year carry back reflects the recovery of taxes payable based on 2020 IFRS profits.

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

E.2.2 Movement in SCR

The table below provides an analysis of the movement in SCR for 2021 and 2020 for RLP:

	2021 £m	2020 £m
Opening SCR	**3,623**	3,038
New business on a fully invested basis	**230**	455
Management of in-force book	**(258)**	(201)
Economic conditions	**(59)**	494
New capital issuance	**21**	–
Impact of LACDT*	**100**	(163)
Closing SCR	**3,657**	3,623

*New category, reallocation from other categories for 2020 presentation

E.2.3 Minimum Capital Requirement (MCR)

RLP's MCR as at 31 December 2021 was £1,115m (2020: £1,126m). The MCR has been calculated using the linear MCR calculation. The MCR cap and floor did not bite as at 31 December 2021 (2020: the MCR cap and floor did not bite). The Minimum Consolidated Group SCR for RL is equal to the MCR for RLP.

E.2.4 Solvency coverage ratios

The solvency position is summarised in the table below:

	RL		RLP	
	2021	2020	**2021**	2020
Tier 1 capital (£m)	**6,833**	5,781	**6,925**	5,857
Tier 2 capital (£m)	**948**	984	**948**	984
Tier 3 capital (£m)	**488**	512	**488**	512
Own Funds eligible to meet SCR	**8,269**	7,277	**8,361**	7,353
SCR (£m)	**3,657**	3,623	**3,657**	3,623
Surplus above SCR (£m)	**4,612**	3,654	**4,704**	3,730
SCR coverage (%)	**226%**	201%	**229%**	203%
MCR (£m)	**1,115**	1,126	**1,115**	1,126
Own Funds eligible to meet MCR (£m)	**7,056**	6,006	**7,148**	6,083
MCR coverage (%)	**633%**	533%	**641%**	540%

The solvency coverage ratio as at 31 December 2021 includes recalculation of transitional solvency relief.

E.3 Use of equity risk sub-module

This section is not subject to audit.

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

E. Capital management
continued

E.4 Differences between standard formula and internal model
This section is not subject to audit.

Rothesay received approval to use a PIM for the calculation of the SCR relating to spread and counterparty default risk from 31 December 2018. Changes to the PIM were subsequently approved for use from 31 December 2019. The standard formula is used to calculate the SCR for all other risk components. The internal model and standard formula components of the SCR are integrated using Integration Technique 3, as detailed in Annex XVIII of the Delegated Acts.

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

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

E.4.1 Calculation methodology
The PIM has been calibrated consistent with the confidence level used in the standard formula calibration, i.e. to a 1-in-200 year loss in basic Own Funds over a one-year horizon.

The spread risk module captures the impact of spread widening, rating migrations and defaults on the portfolio of bonds and loans, as well as the risk mitigating impact of any credit hedges held. Spread widening stresses are calibrated based on historical analyses of bond spreads and rating migrations on indices relevant to Rothesay's portfolio.

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

For some asset classes, for example securitisations of ERMs, credit stresses are instead derived using a bespoke model that captures the granular risks impacting timing and quantum of the cash flows under stress.

The dynamics of the matching adjustment are explicitly captured within the internal model. This includes recalculation of the fundamental spreads following a sustained period of stress, the requirement to re-establish a compliant matching adjustment portfolio post stress (for example, meeting the PRA's three cash flow matching tests) and subsequent recalculation of the matching adjustment.

The counterparty default risk module calculates the loss to Own Funds following the default of a derivative or reinsurance counterparty. The model assumes that Rothesay will seek to re-establish any risk mitigating contracts it held with a defaulted counterparty but that this replacement will not be immediate, particularly following a stressed event. Prior to re-establishing the defaulted contracts with an alternative counterparty, the underlying market variables hedged by the defaulted contract, the value of collateral posted in respect of the defaulted contract, and market pricing may all move adversely, resulting in a replacement cost for the defaulted contracts which is captured within the internal model. In contrast, the standard formula counterparty risk module assumes the defaulted exposure is not replaced and captures the impact from the loss of the risk mitigating effect of the defaulted contracts.

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

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

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

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

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

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

E.5 Non-compliance with the MCR and SCR

RL and RLP have continued to meet both the Minimum Capital Requirement and Solvency Capital Requirement during 2021 and to the date of signing.

E.6 Any other information

This section is not subject to audit.

E.6.1 Amortisation of transitional solvency relief

Transitional solvency relief amortises linearly to zero, falling by another 1/16th on 1 January 2022. As it does so, there is a second order effect on the SCR as a result of tax. The MCR is not impacted by the amortisation of transitional solvency relief.

The table below shows the impact of allowing for amortisation of 1/16th of transitional solvency relief on 1 January 2022:

1 January 2022 (after amortisation)	RL	RLP
Assets (£m)	62,213	62,305
Technical provisions (£m)	(54,043)	(54,043)
Own Funds (£m)	8,170	8,262
SCR (£m)	3,690	3,690
Surplus above SCR	4,480	4,572
SCR coverage (%)	221%	224%
SCR coverage without transitional solvency relief (%)	179%	181%
MCR (£m)	1,116	1,116
Own Funds eligible to meet MCR (£m)	6,957	7,049
MCR coverage (%)	624%	632%

Quantitative Reporting Templates

The following QRTs are required for the SFCR:

QRT reference	QRT template name
Group QRTs	
S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses
S.22.01.22	Impact of long-term guarantees, measures and transitionals
S.23.01.22	Own Funds
S.25.02.22	Solvency Capital Requirement – for undertakings using the standard formula and partial internal model
S.32.01.22	Undertakings in the scope of the Group
Solo QRTs	
S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses
S.12.01.02	Life and Health SLT Technical Provisions
S.22.01.21	Impact of long-term guarantees, measures and transitionals
S.23.01.01	Own Funds
S.25.02.21	Solvency Capital Requirement – for undertakings using the standard formula and partial internal model
S.28.01.01	Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity

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

F. Directors' responsibility statement

Rothesay Limited and Rothesay Life Plc – Financial year ended 31 December 2021

We acknowledge our responsibility for preparing Rothesay's SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year to 31 December 2021, Rothesay has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the Group; and
b) it is reasonable to believe that Rothesay has continued so to comply subsequently and will continue so to comply in future.

The SFCR was approved by the Board of Directors on 31 March 2022 and was signed on its behalf by:

Andrew Stoker
Chief Financial Officer
31 March 2022

G. External auditors' report

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

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

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2021:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2021, ('**the Narrative Disclosures subject to audit**'); and
- Group templates S.02.01.02, S.22.01.22, S.23.01.22 and S.32.01.22 ('**the Group Templates subject to audit**').
- Company templates S.02.01.02, S.12.01.02, S.22.01.21, S.23.01.01 and S.28.01.01 in respect of Rothesay Life Plc ('the Group members') ('**the Company Templates subject to audit**').

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

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

- Information contained within the relevant elements of the Single Group-Wide Solvency and Financial Condition Report set out above which is, or derives from the Solvency Capital Requirement, as identified in the Appendix to this report;
- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Single Group-Wide Solvency and Financial Condition Report;
- Group templates S.05.01.02, and S.25.02.22;
- Company templates S.05.01.02, and S.25.02.21;
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measure on technical provisions as set out in the Appendix to this report;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Single Group-Wide Solvency and Financial Condition Report ('**the Responsibility Statement**');

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

In our opinion, the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2021 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

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

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:

- obtaining management's updated going concern assessment and material assumptions made using our knowledge of Group and Company's business performance, review of regulatory correspondence and obtaining further corroborating evidence;
- considered management's assessment of the regulatory Solvency coverage and liquidity position in the forward looking scenarios considered which have been driven by the Group's ORSA;
- considered information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern (including the continued impacts of COVID-19); and
- inquiring and understanding the actions taken by management to mitigate the identified risks, including review of Board Risk Committee minutes and attendance of all Audit Committees.

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

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

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

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

Emphasis of Matter – Basis of Accounting

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

G. External auditors’ report

continued

Other Information

The Directors are responsible for the Other Information.

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

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

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

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

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

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

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

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

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

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

- discussions with the Board, management, Internal Audit, senior management involved in the Risk and Compliance functions and the Group's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud relevant to the SFCR;
- reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority ('FCA') in relation to compliance with laws and regulations, including published waivers, permissions, modifications on the FCA register;
- reviewing relevant meeting minutes including those of the Risk Committee and attending all Audit Committees;
- procedures relating to the valuation of Life Technical Provisions, in particular longevity assumptions, the internal credit rating of illiquid assets within the matching adjustment portfolio, and the valuation of investments using Alternative Valuation Models. In addition, we consider whether there are indications of management bias in the Solvency II valuation;
- identifying material adjustments to derive the Solvency II financial information from the statutory financial statements and assessing for indicators of material non-compliance with Solvency II regulations; and
- designing audit procedures that incorporated unpredictability around the nature, timing or extent of our testing to material and immaterial Solvency II Balance Sheet items, as well as validating the accuracy of financial information used to derive the Relevant Elements of the SFCR subject to audit.

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

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

Use of this report

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

G. External auditors' report

continued

Other Matter

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

Report on Other Legal and Regulatory Requirements

Other Information

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

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

PricewaterhouseCoopers LLP
Chartered Accountants
7 More London Riverside
London
SE1 2RT
31 March 2022

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

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

- The following elements of Group template S.02.01.02:
  - Row R0550: Technical provisions – non-life (excluding health) – risk margin
  - Row R0590: Technical provisions – health (similar to non-life) – risk margin
  - Row R0640: Technical provisions – health (similar to life) – risk margin
  - Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
  - Row R0720: Technical provisions – Index-linked and unit-linked – risk margin
- The following elements of Group template S.22.01.22
  - Column C0030 – Impact of transitional on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement
- The following elements of Group template S.23.01.22
  - Row R0020: Non-available called but not paid in ordinary share capital at Group level
  - Row R0060: Non-available subordinated mutual member accounts at Group level
  - Row R0080: Non-available surplus at Group level
  - Row R0100: Non-available preference shares at Group level
  - Row R0120: Non-available share premium account related to preference shares at Group level
  - Row R0150: Non-available subordinated liabilities at Group level
  - Row R0170: The amount equal to the value of net deferred tax assets not available at the Group level
  - Row R0190: Non-available Own Funds related to other Own Funds items approved by supervisory authority
  - Row R0210: Non-available minority interests at Group level
  - Row R0380: Non-available ancillary Own Funds at Group level
  - Row R0680: Group SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds
  - Row R0750: Other non-available Own Funds
- The following elements of Company template S.02.01.02:
  - Row R0550: Technical provisions – non-life (excluding health) – risk margin
  - Row R0590: Technical provisions – health (similar to non-life) – risk margin
  - Row R0640: Technical provisions – health (similar to life) – risk margin
  - Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
  - Row R0720: Technical provisions – Index-linked and unit-linked – risk margin
- The following elements of Company template S.12.01.02
  - Row R0100: Technical provisions calculated as a sum of BE and RM – Risk margin
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of Company template S.17.01.02
  - R0280: Technical provisions calculated as a sum of BE and RM – Risk margin
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of Company template S.22.01.21
  - Column C0030 – Impact of transitional on technical provisions

G. External auditors' report

continued

  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement
- The following elements of Company template S.23.01.01
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds
- The following elements of Company template S.28.01.01/S.28.02.01
  - Row R0310: SCR
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

H. Appendix: Rothesay Limited QRTs

General information

Participating undertaking name	Rothesay Limited
Group identification code	2138004AIGF3ZBEQAF22
Type of code of group	LEI
Country of the group supervisor	GB
Language of reporting	en
Reporting reference date	31 December 2021
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the group SCR	Partial internal model
Method of group solvency calculation	Method 1 is used exclusively
Matching adjustment	Use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	Use of transitional measure on technical provisions

List of reported templates
S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.22.01.22 - Impact of long term guarantees measures and transitionals
S.23.01.22 - Own Funds
S.25.02.22 - Solvency Capital Requirement - for groups using the standard formula and partial internal model
S.32.01.22 - Undertakings in the scope of the group

H. Appendix: Rothesay Limited QRTs

S.02.01.02
Balance sheet

		Solvency II value
	Assets	**C0010**
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	30,413
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	71,035,374
R0080	*Property (other than for own use)*	
R0090	*Holdings in related undertakings, including participations*	
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	44,678,860
R0140	*Government Bonds*	18,205,967
R0150	*Corporate Bonds*	25,888,994
R0160	*Structured notes*	41,639
R0170	*Collateralised securities*	542,260
R0180	*Collective Investments Undertakings*	5,405,548
R0190	*Derivatives*	20,768,319
R0200	*Deposits other than cash equivalents*	182,647
R0210	*Other investments*	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	13,226,731
R0240	*Loans on policies*	
R0250	*Loans and mortgages to individuals*	6,340,349
R0260	*Other loans and mortgages*	6,886,382
R0270	Reinsurance recoverables from:	-3,586,538
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	-3,586,538
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	-3,586,538
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	461,910
R0390	Own shares (held directly)	71,916
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	353,157
R0420	Any other assets, not elsewhere shown	223,749
R0500	**Total assets**	**81,816,711**

S.02.01.02
Balance sheet continued

		Solvency II value
	Liabilities	**C0010**
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	50,324,009
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	50,324,009
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	49,494,076
R0680	*Risk margin*	829,933
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	164,506
R0790	Derivatives	20,687,966
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	455,771
R0820	Insurance & intermediaries payables	21,003
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	1,822,237
R0850	Subordinated liabilities	2,539,413
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	2,539,413
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	76,014,906
R1000	**Excess of assets over liabilities**	5,801,805

H. Appendix: Rothesay Limited QRTs

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

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
	Premiums written									
R1410	Gross				3,107,077				98,032	3,205,109
R1420	Reinsurers' share				1,618,223				17,766	1,635,989
R1500	Net				1,488,853				80,267	1,569,120
	Premiums earned									
R1510	Gross				3,578,266				833,628	4,411,894
R1520	Reinsurers' share				1,618,223				17,766	1,635,989
R1600	Net				1,960,043				815,863	2,775,905
	Claims incurred									
R1610	Gross				2,229,730				671,611	2,901,341
R1620	Reinsurers' share				1,520,602				0	1,520,602
R1700	Net				709,128				671,611	1,380,739
	Changes in other technical provisions									
R1710	Gross				-9,713,034				10,929,503	1,216,470
R1720	Reinsurers' share				198,211				0	198,211
R1800	Net				-9,911,245				10,929,503	1,018,258
R1900	**Expenses incurred**				188,564				41,708	230,272
R2500	**Other expenses**									-9,076
R2600	**Total expenses**									221,196

S.22.01.22
Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	**C0030**	**C0050**	**C0070**	**C0090**
R0010	**Technical provisions**	50,324,009	1,454,915	0	0	7,136,679
R0020	**Basic own funds**	8,269,302	-1,091,186	0	0	-6,919,904
R0050	**Eligible own funds to meet Solvency Capital Requirement**	8,269,302	-1,172,413	0	0	-6,838,677
R0090	**Solvency Capital Requirement**	3,657,075	363,729	0	0	6,654,753

S.23.01.22
Own Funds

	Basic own funds before deduction for participations in other financial sector	**Total**	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	**C0020**	**C0030**	**C0040**	**C0050**
R0010	Ordinary share capital (gross of own shares)	**3,096**	3,096		0	
R0020	*Non-available called but not paid in ordinary share capital at group level*	**0**				
R0030	Share premium account related to ordinary share capital	**1,544,493**	1,544,493		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	**0**	0		0	
R0050	Subordinated mutual member accounts	**0**		0	0	0
R0060	*Non-available subordinated mutual member accounts at group level*	**0**				
R0070	Surplus funds	**0**	0			
R0080	*Non-available surplus funds at group level*	**0**	0			
R0090	Preference shares	**0**		0	0	0
R0100	*Non-available preference shares at group level*	**0**				
R0110	Share premium account related to preference shares	**0**		0	0	0
R0120	*Non-available share premium account related to preference shares at group level*	**0**				
R0130	Reconciliation reserve	**4,182,300**	4,182,300			
R0140	Subordinated liabilities	**2,539,413**		1,103,517	947,774	488,122
R0150	*Non-available subordinated liabilities at group level*	**0**				
R0160	An amount equal to the value of net deferred tax assets	**0**				0
R0170	*The amount equal to the value of net deferred tax assets not available at the group level*	**0**				0
R0180	Other items approved by supervisory authority as basic own funds not specified above	**0**	0	0	0	0
R0190	*Non available own funds related to other own funds items approved by supervisory authority*	**0**				
R0200	Minority interests (if not reported as part of a specific own fund item)	**0**				
R0210	*Non-available minority interests at group level*	**0**				
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**					
R0230	**Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities**	**0**				
R0240	*whereof deducted according to art 228 of the Directive 2009/138/EC*	**0**				
R0250	Deductions for participations where there is non-availability of information (Article 229)	**0**				
R0260	Deduction for participations included by using D&A when a combination of methods is used	**0**				
R0270	**Total of non-available own fund items**	**0**	0	0	0	0
R0280	**Total deductions**	**0**	0	0	0	0

H. Appendix: Rothesay Limited QRTs

S.23.01.22
Own Funds continued

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
R0290	**Total basic own funds after deductions**	**8,269,302**	5,729,889	1,103,517	947,774	488,122
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	**0**				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	**0**				
R0320	Unpaid and uncalled preference shares callable on demand	**0**				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**0**				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**0**				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**0**				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**0**				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**0**				
R0380	Non available ancillary own funds at group level	**0**				
R0390	Other ancillary own funds	**0**				
R0400	**Total ancillary own funds**	**0**			0	0
	Own funds of other financial sectors					
R0410	Credit Institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies	**0**				
R0420	Institutions for occupational retirement provision	**0**				
R0430	Non regulated entities carrying out financial activities	**0**				
R0440	**Total own funds of other financial sectors**	**0**	0	0	0	0

S.23.01.22
Own Funds continued

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Own funds when using the D&A, exclusively or in combination of method 1					
R0450	Own funds aggregated when using the D&A and combination of method	**0**				
R0460	Own funds aggregated when using the D&A and combination of method net of IGT	**0**				
R0520	Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**8,269,302**	5,729,889	1,103,517	947,774	488,122
R0530	Total available own funds to meet the minimum consolidated group SCR	**7,781,180**	5,729,889	1,103,517	947,774	
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**8,269,302**	5,729,889	1,103,517	947,774	488,122
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	**7,056,345**	5,729,889	1,103,517	222,939	
R0610	**Minimum consolidated Group SCR**	**1,114,693**				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	**633.03%**				
R0660	**Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)**	**8,269,302**	5,729,889	1,103,517	947,774	488,122
R0680	**Group SCR**	**3,657,075**				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	**226.12%**				
	Reconcilliation reserve	**C0060**				
R0700	Excess of assets over liabilities	**5,801,805**				
R0710	Own shares (held directly and indirectly)	**71,916**				
R0720	Forseeable dividends, distributions and charges					
R0730	Other basic own fund items	**1,547,589**				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds					
R0750	Other non available own funds					
R0760	**Reconciliation reserve**	**4,182,300**				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business	**836,660**				
R0780	Expected profits included in future premiums (EPIFP) - Non- life business					
R0790	**Total Expected profits included in future premiums (EPIFP)**	**836,660**				

H. Appendix: Rothesay Limited QRTs

S.25.02.22
Solvency Capital Requirement -for groups using the standard formula and partial internal model

	Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
Row	**C0010**	**C0020**	**C0030**	**C0070**	**C0090**	**C0120**
1	10100I	Market Risk	2,922,129	2,837,095	9	
2	20000I	Counterparty risk	360,665	360,665	9	
3	30000I	Life underwriting risk	1,647,319		9	
4	70100I	Operational risk	235,691		9	
5	80300I	Loss-absorbing capacity of deferred tax	-648,845		9	

USP Key
For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

USP Key
For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non- proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

USP Key
For non-life underwriting risk:
4 - Adjustment factor for non- proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

S.25.02.22
Solvency Capital Requirement - for groups using the standard formula and partial internal model

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	4,516,959
R0060	Diversification	-928,884
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	3,588,075
R0210	Capital add-ons already set	69,000
R0220	**Solvency capital requirement for undertakings under consolidated method**	3,657,075
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	-648,845
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	439,542
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	3,260,351
R0440	Diversification effects due to RFF nSCR aggregation for article 304	-42,818
R0470	Minimum consolidated group solvency capital requirement	1,114,693
	Information on other entities	
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	0
R0510	*Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies*	
R0520	*Institutions for occupational retirement provisions*	
R0530	*Capital requirement for non-regulated entities carrying out financial activities*	
R0540	Capital requirement for non-controlled participation requirements	
R0550	Capital requirement for residual undertakings	
	Overall SCR	
R0560	SCR for undertakings included via D and A	
R0570	**Solvency capital requirement**	3,657,075

H. Appendix: Rothesay Limited QRTs

S.32.01.22
Undertakings in the scope of the group

	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking
Row	**C0010**	**C0020**	**C0030**	**C0040**
1	GB	2138004AIGF3ZBEQAF22	LEI	Rothesay Limited
2	GB	RTCEKCVNBGTNCXT1JZ92	LEI	Rothesay Pensions Management Limited
3	GB	MFQO711J5UPYBWXSPG12	LEI	Rothesay Life Plc
4	GB	213800VJ8SB2HZ9DS845	LEI	LT Mortgage Financing Limited
5	JE	2138004AIGF3ZBEQAF22JE00001	Specific code	The Rothesay Employee Share Trust
6	GB	213800TVD5OHC11UAL06	LEI	Rothesay Asset Management UK Limited
7	US	2138004AIGF3ZBEQAF22US00003	Specific code	Rothesay Asset Management (US) LLC
8	GB	213800AAE8JLMGCMCO35	LEI	Rothesay MA No.1 Limited
9	GB	213800ET6FAMYMO6UD20	LEI	Rothesay MA No.2 Limited
10	GB	213800AAAMP82RKQX911	LEI	Rothesay MA No.3 Limited
11	GB	213800HD1VHI3VDQSS79	LEI	Rothesay MA No.4 Limited
12	GB	213800PWS9HS7T7I5G68	LEI	Rothesay Life Foundation
13	AU	2138004AIGF3ZBEQAF22AUS00008	Specific code	Rothesay Asset Management AUS limited
14	GB	2138007SG3BRF5OYMH68	LEI	Rothesay Property Partnership 1 LLP

Type of undertaking	Legal form	Category (mutual/ non mutual	Supervisory Authority
C0050	**C0060**	**C0070**	**C0080**
Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares or by guarantee or unlimited	Non-mutual	
Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
Life insurance undertaking	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority
Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Trust	Non-mutual	
Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	

H. Appendix: Rothesay Limited QRTs

S.32.01.22
Undertakings in the scope of the group continued

	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Criteria of influence: % capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Inclusion in the scope of Group supervision: YES/NO	Date of decision if art. 214 is applied	Group solvency calculation: Method used and under method 1, treatment of the undertaking
Row	**C0010**	**C0020**	**C0030**	**C0040**	**C0180**	**C0190**	**C0200**	**C0210**	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**
1	GB	2138004AIGF3ZBEQAF22	LEI	Rothesay Limited							Included in the scope		Method 1: Full consolidation
2	GB	RTCEKCVNBGTNCXT1JZ92	LEI	Rothesay Pensions Management Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
3	GB	MFQO711J5UPYBWXSPG12	LEI	Rothesay Life Plc	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
4	GB	213800VJ8SB2HZ9DS845	LEI	LT Mortgage Financing Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
5	JE	2138004AIGF3ZBEQAF22JE00001	Specific code	The Rothesay Employee Share Trust	0.00%	100.00%	0.00%	Principal Company	Dominant	100.00%	Included in the scope		Method 1: Full consolidation
6	GB	213800TVD5OHC11UAL06	LEI	Rothesay Asset Management UK Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
7	US	2138004AIGF3ZBEQAF22US00003	Specific code	Rothesay Asset Management (US) LLC	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
8	GB	213800AAE8JLMGCMCO35	LEI	Rothesay MA No.1 Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
9	GB	213800ET6FAMYMO6UD20	LEI	Rothesay MA No.2 Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
10	GB	213800AAAMP82RKQX911	LEI	Rothesay MA No.3 Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
11	GB	213800HD1VHI3VDQSS79	LEI	Rothesay MA No.4 Limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
12	GB	213800PWS9HS7T7I5G68	LEI	Rothesay Life Foundation	100.00%	0.00%	0.00%		Dominant	0.00%	Not included in the scope (art. 214 b)	2021-02-25	No inclusion in the scope of group supervision as defined in Art. 214 Directive 2009/138/EC
13	AU	2138004AIGF3ZBEQAF22AUS00008	Specific code	Rothesay Asset Management AUS limited	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
14	GB	2138007SG3BRF5OYMH68	LEI	Rothesay Property Partnership 1 LLP	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation

H. Appendix: Rothesay Life Plc QRTs

General information

Undertaking name	Rothesay Life PLC
Undertaking identification code	MFQO711J5UPYBWXSPG12
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2021
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the SCR	Partial internal model
Matching adjustment	Use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	Use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.12.01.02 - Life and Health SLT Technical Provisions
S.22.01.21 - Impact of long term guarantees measures and transitionals
S.23.01.01 - Own Funds
S.25.02.21 - Solvency Capital Requirement - for undertakings using the standard formula and partial internal model
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

H. Appendix: Rothesay Life Plc QRTs

continued

S.02.01.02
Balance sheet

		Solvency II Value
	Assets	**C0010**
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	30,280
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	71,047,770
R0080	*Property (other than for own use)*	
R0090	*Holdings in related undertakings, including participations*	12,414
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	44,678,860
R0140	*Government Bonds*	18,205,967
R0150	*Corporate Bonds*	25,888,994
R0160	*Structured notes*	41,639
R0170	*Collateralised securities*	542,260
R0180	*Collective Investments Undertakings*	5,405,530
R0190	*Derivatives*	20,768,319
R0200	*Deposits other than cash equivalents*	182,647
R0210	*Other investments*	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	13,387,423
R0240	*Loans on policies*	
R0250	*Loans and mortgages to individuals*	6,501,041
R0260	*Other loans and mortgages*	6,886,382
R0270	Reinsurance recoverables from:	-3,586,538
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	-3,586,538
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	-3,586,538
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	624,767
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	159,032
R0420	Any other assets, not elsewhere shown	223,749
R0500	Total assets	**81,886,482**

S.02.01.02
Balance sheet

		Solvency II Value
	Liabilities	**C0010**
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	50,324,009
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	50,324,009
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	49,494,076
R0680	*Risk margin*	829,933
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	286,049
R0790	Derivatives	20,687,966
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	455,703
R0820	Insurance & intermediaries payables	21,003
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	1,750,550
R0850	Subordinated liabilities	2,539,413
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	2,539,413
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	**76,064,694**
R1000	**Excess of assets over liabilities**	**5,821,788**

H. Appendix: Rothesay Life Plc QRTs
continued

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

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
	Premiums written									
R1410	Gross				3,107,077				98,032	3,205,109
R1420	Reinsurers' share				1,618,223				17,766	1,635,989
R1500	Net				1,488,853				80,267	1,569,120
	Premiums earned									
R1510	Gross				3,578,266				833,628	4,411,894
R1520	Reinsurers' share				1,618,223				17,766	1,635,989
R1600	Net				1,960,043				815,863	2,775,905
	Claims incurred									
R1610	Gross				2,229,730				671,611	2,901,341
R1620	Reinsurers' share				1,520,602				0	1,520,602
R1700	Net				709,128				671,611	1,380,739
	Changes in other technical provisions									
R1710	Gross				-9,713,034				10,929,503	1,216,470
R1720	Reinsurers' share				198,211				0	198,211
R1800	Net				-9,911,245				10,929,503	1,018,258
R1900	**Expenses incurred**				188,564				41,708	230,272
R2500	**Other expenses**									-9,076
R2600	**Total expenses**									221,196

S.12.01.02
Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**									0	0						
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole									0	0						
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**						11,583,522	36,923,609		1,068,290	49,575,421						
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						-902,760	-2,683,779		0	-3,586,538						
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re						12,486,281	39,607,387		1,068,290	53,161,959						
R0100	**Risk margin**					2,054,910				148,593	2,203,503						
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole										0						
R0120	Best estimate						-479	-80,866			-81,345						
R0130	Risk margin					-1,284,774				-88,796	-1,373,570						
R0200	**Technical provisions - total**					49,195,162				1,128,847	50,324,009						

H. Appendix: Rothesay Life Plc QRTs

continued

S.22.01.21
Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	**C0030**	**C0050**	**C0070**	**C0090**
R0010	**Technical provisions**	50,324,009	1,454,915	0	0	7,136,679
R0020	**Basic own funds**	8,361,201	-1,091,186	0	0	-6,919,904
R0050	**Eligible own funds to meet Solvency Capital Requirement**	8,361,201	-1,172,413	0	0	-6,838,677
R0090	**Solvency Capital Requirement**	3,657,075	363,729	0	0	6,654,753
R0100	**Eligible own funds to meet Minimum Capital Requirement**	7,148,243	-1,287,070	0	0	-5,861,173
R0110	**Minimum Capital Requirement**	1,114,693	1,708	0	0	1,552,488

S.23.01.01
Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	**C0020**	**C0030**	**C0040**	**C0050**
R0010	Ordinary share capital (gross of own shares)	**510,529**	510,529		0	
R0030	Share premium account related to ordinary share capital	**1,953,226**	1,953,226		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	**0**	0		0	
R0050	Subordinated mutual member accounts	**0**		0	0	0
R0070	Surplus funds	**0**	0			
R0090	Preference shares	**0**		0	0	0
R0110	Share premium account related to preference shares	**0**		0	0	0
R0130	Reconciliation reserve	**3,358,034**	3,358,034			
R0140	Subordinated liabilities	**2,539,413**		1,103,517	947,774	488,122
R0160	An amount equal to the value of net deferred tax assets	**0**				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	**0**	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	**0**				
R0230	**Deductions for participations in financial and credit institutions**	**0**	0	0	0	
R0290	**Total basic own funds after deductions**	**8,361,201**	5,821,788	1,103,517	947,774	488,122
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	**0**				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	**0**				
R0320	Unpaid and uncalled preference shares callable on demand	**0**				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**0**				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**0**				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**0**				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**0**				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**0**				
R0390	Other ancillary own funds	**0**				
R0400	**Total ancillary own funds**	**0**			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	**8,361,201**	5,821,788	1,103,517	947,774	488,122
R0510	Total available own funds to meet the MCR	**7,873,079**	5,821,788	1,103,517	947,774	
R0540	Total eligible own funds to meet the SCR	**8,361,201**	5,821,788	1,103,517	947,774	488,122
R0550	Total eligible own funds to meet the MCR	**7,148,243**	5,821,788	1,103,517	222,939	
R0580	**SCR**	**3,657,075**				
R0600	**MCR**	**1,114,693**				
R0620	**Ratio of Eligible own funds to SCR**	**228.63%**				
R0640	**Ratio of Eligible own funds to MCR**	**641.27%**				

	Reconcilliation reserve	**C0060**
R0700	Excess of assets over liabilities	**5,821,788**
R0710	Own shares (held directly and indirectly)	**0**
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	**2,463,754**
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**0**
R0760	**Reconciliation reserve**	**3,358,034**
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	**836,660**
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	**836,660**

H. Appendix: Rothesay Life Plc QRTs
continued

S.25.02.22
Solvency Capital Requirement -for groups using the standard formula and partial internal model

	Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
Row	**C0010**	**C0020**	**C0030**	**C0070**	**C0090**	**C0120**
1	10000I	Market Risk	2,922,129	2,837,095	9	
2	20000I	Counterparty risk	360,665	360,665	9	
3	30000I	Life underwriting risk	1,647,319		9	
4	70100I	Operational risk	235,691		9	
5	80300I	Loss-absorbing capacity of deferred tax	-648,845		9	

USP Key
For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

USP Key
For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non- proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

USP Key
For non-life underwriting risk:
4 - Adjustment factor for non- proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

S.25.02.21
Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	4,516,959
R0060	Diversification	-928,884
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	3,588,075
R0210	Capital add-ons already set	69,000
R0220	**Solvency capital requirement**	3,657,075
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	-648,845
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	439,542
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	3,260,351
R0440	Diversification effects due to RFF nSCR aggregation for article 304	-42,818
	Approach to tax rate	**C0109**
R0590	Approach based on average tax rate	No
	Calculation of loss absorbing capacity of deferred taxes	**LAC DT C0130**
R0640	Amount/estimate of LAC DT	-648,845
R0650	Amount/estimate of LAC DT justified by reversion of deferred tax liabilities	-167,504
R0660	Amount/estimate of LAC DT justified by reference to probable future taxable economic profit	-313,040
R0670	Amount/estimate of LAC DT justified by carry back, current year	-168,301
R0680	Amount/estimate of LAC DT justified by carry back, future years	0
R0690	Amount/estimate of Maximum LAC DT	-1,023,332

H. Appendix: Rothesay Life Plc QRTs

continued

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010		
R0010	MCR_{NL} Result	0		
			Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
			C0020	**C0030**
R0020	Medical expense insurance and proportional reinsurance			
R0030	Income protection insurance and proportional reinsurance			
R0040	Workers' compensation insurance and proportional reinsurance			
R0050	Motor vehicle liability insurance and proportional reinsurance			
R0060	Other motor insurance and proportional reinsurance			
R0070	Marine, aviation and transport insurance and proportional reinsurance			
R0080	Fire and other damage to property insurance and proportional reinsurance			
R0090	General liability insurance and proportional reinsurance			
R0100	Credit and suretyship insurance and proportional reinsurance			
R0110	Legal expenses insurance and proportional reinsurance			
R0120	Assistance and proportional reinsurance			
R0130	Miscellaneous financial loss insurance and proportional reinsurance			
R0140	Non-proportional health reinsurance			
R0150	Non-proportional casualty reinsurance			
R0160	Non-proportional marine, aviation and transport reinsurance			
R0170	Non-proportional property reinsurance			
	Linear formula component for life insurance and reinsurance obligations	**C0040**		
R0200	MCR_L Result	1,114,693		

			Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance/ SPV) total capital at risk
			C0050	**C0060**
R0210	Obligations with profit participation - guaranteed benefits			
R0220	Obligations with profit participation - future discretionary benefits			
R0230	Index-linked and unit-linked insurance obligations			
R0240	Other life (re)insurance and health (re)insurance obligations		53,080,614	
R0250	Total capital at risk for all life (re)insurance obligations			
	Overall MCR calculation	**C0070**		
R0300	Linear MCR	1,114,693		
R0310	SCR	3,657,075		
R0320	MCR cap	1,645,684		
R0330	MCR floor	914,269		
R0340	Combined MCR	1,114,693		
R0350	Absolute floor of the MCR	3,126		
R0400	**Minimum Capital Requirement**	1,114,693		

Glossary of Terms

Acquisition costs	Acquisition costs comprise the expenses associated with the origination of new business, including annual compensation for employees.
Administration expenses	Administration costs represent the cost of administering the in-force book of business. They include both outsourcing costs and other costs incurred by Rothesay.
Annuity	A series of regular payments made to an individual until their death. Payments may be indexed.
Assets under management	Assets being managed by Rothesay. Can be derived by taking total assets and adjusting for reinsurance assets, derivative liabilities and collateralised liabilities.
Best estimate liability (BEL)	The liabilities of Rothesay calculated on a best estimate basis under Solvency II, i.e. where all the assumptions made in the calculation are best estimate.
Borrowing costs	Interest payable on borrowings.
Brexit	The UK's exit from the European Union.
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.
Collateralised agreements/ investments	Loans secured on property or other collateral.
Collective investment schemes	A way of investing money alongside other investors. Rothesay invests in money market funds as an alternative to cash.
Corporate bonds and other corporate debt	These are debt securities issued by corporations which are not guaranteed by governments.
Credit risk	The risk of loss or of adverse change in the financial situation resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors.
Currency rate risk	The risk that asset or liability values, cash flows, income or expenses will be affected by changes in exchange rates. Also referred to as foreign exchange risk.
Economic capital	Represents management's internal risk-based calculation of the capital required to remain solvent for a 99.5% confidence level over a one-year period.
Economic profits	Profits or losses generated as a result of changes in economic conditions.

Glossary of Terms

continued

Employee benefit trust (EBT)	A trust established to purchase and hold shares of the Company for delivery under employee share schemes.
Employee Share Incentive Plan (ESIP) Trust	A trust established to purchase and hold shares of the Company for delivery under a HMRC-approved employee share schemes.
Equity release mortgages (ERM)	Mortgages extended to older customers (aged 55 and over) against their residential property at low loan to value percentage. Unlike a typical residential mortgage, no interest is paid monthly by the customer. Instead, the interest is simply added to the principal loan amount with the loan only repayable on death or entry into long-term care of the last remaining homeowner.
Fair value	Amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Financial Conduct Authority (FCA)	The UK regulatory body that regulates the financial services industry in the UK. Its role includes protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers.
Finance costs	Represent interest payable on borrowings.
Full internal model (FIM)	Under Solvency II, insurer's own model used to calculate the solvency capital requirement in relation to all material quantifiable risks approved by the PRA.
Government, sub sovereign and agency obligations	A bond issued by a country's government or corporate debt which is guaranteed by a government to repay borrowed money at a specific time.
Gross premiums written	Premiums received by RLP on new business and generated through regular premiums.
In-force	An insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated.
Insurance risk	The risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.
International Financial Reporting Standards (IFRS)	Accounting standards that are applied in preparing Rothesay's consolidated financial statements.
Investment return	Comprises all interest income on financial investments at fair value through profit and loss, realised investment gains and losses and movements in unrealised gains and losses, as well as expenses directly related to investments executed during the year.
Inwards longevity reinsurance	Longevity-only reinsurance where Rothesay is acting as the reinsurer.
LIBOR	LIBOR, the acronym for London Interbank Offer Rate, is the global reference rate for unsecured short-term borrowing in the interbank market and has now been replaced by SONIA.
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 realised investments and other assets in order to settle financial obligations when they fall due.
Longevity reinsurance (%)	The longevity reinsurance percentage provides an indication of the extent to which Rothesay is protected from fluctuations in longevity through reinsurance. It is derived from the IFRS sensitivity analysis.
Longevity risk	The risk that a company could be exposed to a higher payout as a result of increasing life expectancy.
Loss Absorbing Capacity of Deferred Taxes (LACDT)	The Loss Absorbing Capacity of Deferred Taxes adjustment reflects the fact that new deferred tax assets would be created in the event that Rothesay incurred unexpected losses, resulting in an increase of Own Funds. The LACDT reduces the SCR.
LTMF	LT Mortgage Financing Limited.
Market consistent embedded value (MCEV)	The risk-adjusted value of the in-force business, allowing for the unwind of IFRS margins and cost of capital.
Market risk	The risk of loss or of adverse change resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.
Matching adjustment	The matching adjustment, a concept in Solvency II, is broadly equivalent to the illiquidity premium that can be earned on the illiquid assets held to back illiquid liabilities.
Mortality tables	A table which shows for each age, what the probability is that a person of that age and gender will die before their next birthday.
New business	New insurance contracts and reinsurance inwards sold during the period. Includes business acquired through purchase of companies.
New business premium	Premium paid on new business transacted during the period and adjustments to new business premiums from prior periods. New business premiums and regular premium income make up gross premiums written.
New business profit	IFRS new business profit projected to be realised once the premium is invested according to Rothesay's long-term investment strategy, before release of IFRS margins.
Non-recurring expenditure	Administration – project and other one-off expenses.
Operating profit before tax	Gross IFRS profit less the impact of market fluctuations, exceptional expenses and financing costs.
Operational risk	The risk arising from inadequate or failed internal processes, personnel or systems, or from external events. Operational risk includes conduct and cyber risk.
Own Funds	Assets in excess of those required to meet the Solvency II technical provisions.
Own risk and solvency assessment (ORSA)	An assessment of the risk to which the business is exposed as well as solvency forecasting in a range of scenarios, including consideration of the stresses that could jeopardise the Rothesay's business plans.
Partial internal model (PIM)	Under Solvency II, insurer's own model used to calculate the solvency capital requirement in relation to particular risks approved by the PRA.

Glossary of Terms
continued

Part VII transfers	Court-approved transfer of a portfolio of contracts from one insurer to another under Part VII of the Financial Services and Markets Act 2000.
Performance of in-force book	Profits or losses generated on the in-force book of business.
Pillar I	Under Solvency II, represents the solvency capital requirement calculated using a standard formula or (partial) internal model.
Pillar 2	Under Solvency II, represents the required risk management principles and practices relating to the risk and capital estimates covered by Pillar 1.
Policyholders	Rothesay generally uses the term policyholder to refer to the individual immediate and deferred annuitants whose benefits are insured by Rothesay regardless of whether the insurance is provided under a bulk annuity (where the contract is with the pension scheme) or a reinsurance policy (where the contract is with the insurance company).
Prudential Regulation Authority (PRA)	The PRA is a UK regulatory body responsible for prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
qx	qx is actuarial notation used to represent the probability of a life aged x dying during the year.
RAL	Rothesay Assurance Limited. This has now been wound up.
Regular premiums	Payments of premium made regularly over the duration of the policy.
Reinsurance	Protection sold to or purchased from another insurance company.
Risk margin	Under Solvency II, the cost of transferring non-hedgeable risks.
RL	Rothesay Limited
RLP	Rothesay Life Plc, the Group's regulated life company.
RMA1	Rothesay MA No.1 Limited.
RMA2	Rothesay MA No.2 Limited.
RMA3	Rothesay MA No.3 Limited.
RMA4	Rothesay MA No.4 Limited.
RPML	Rothesay Pensions Management Limited, the Group's service company.
SARs	Share Appreciation Rights plan. Provides for grants of cash-settled share appreciation rights.
SCR coverage ratio	Own Funds divided by SCR. Measure of surplus above capital requirement.
Single premiums	Single premium policies of insurance are those that require only a single lump sum payment from the policyholder.
Sk	Smoothing parameter in CMI longevity improvement model determining the weighting on recent experience. Given recent improvements, a higher Sk than adopted by RL will generally lead to a higher initial assumed rate of mortality improvement.
Solvency capital requirement (SCR)	Under Solvency II, capital requirement to withstand a 1-in-200 year event.

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

Rothesay

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