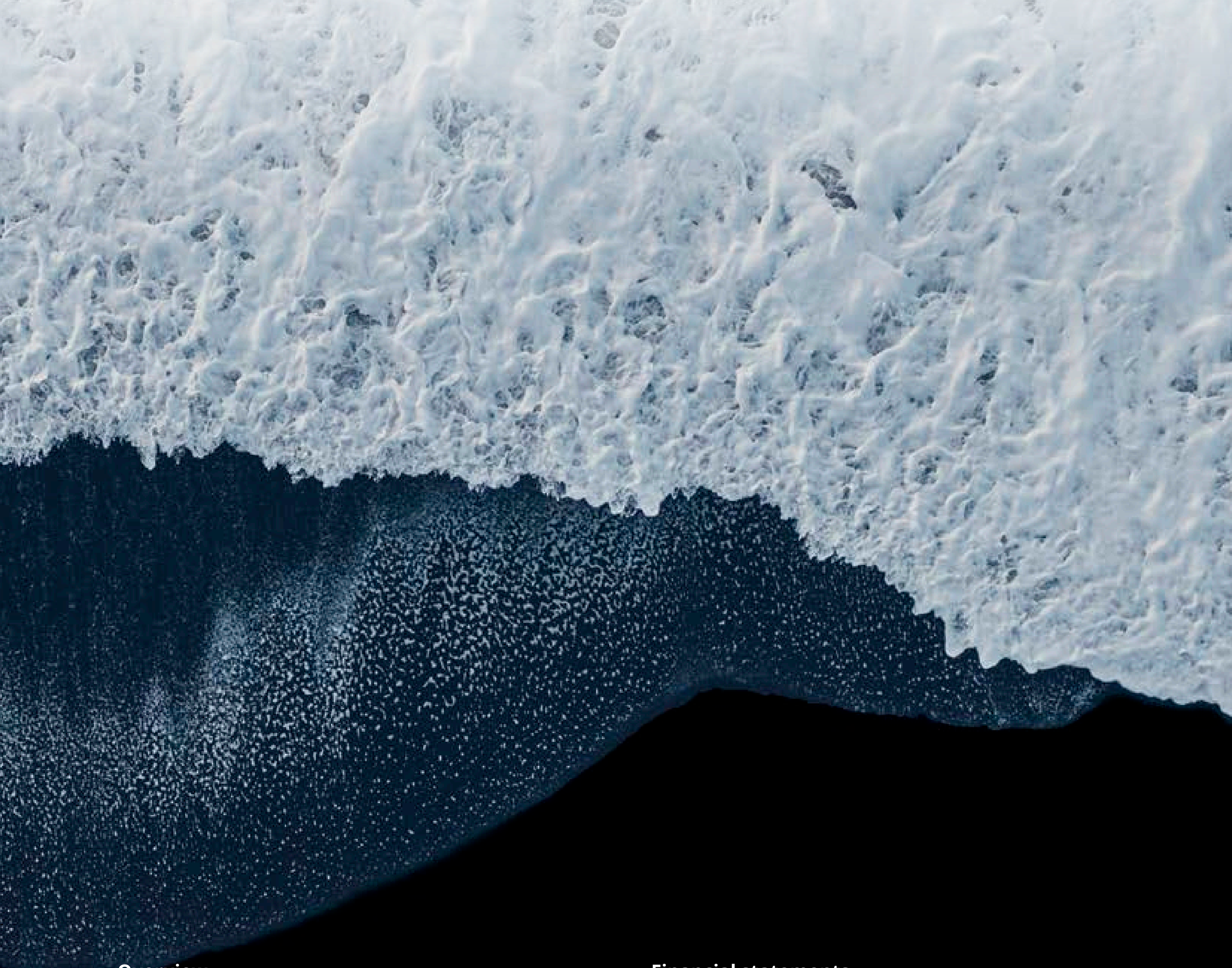
Rothesay

Focused on the future

Rothesay Life Plc
Annual report and accounts 2021

Our purpose

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



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

Who we are

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

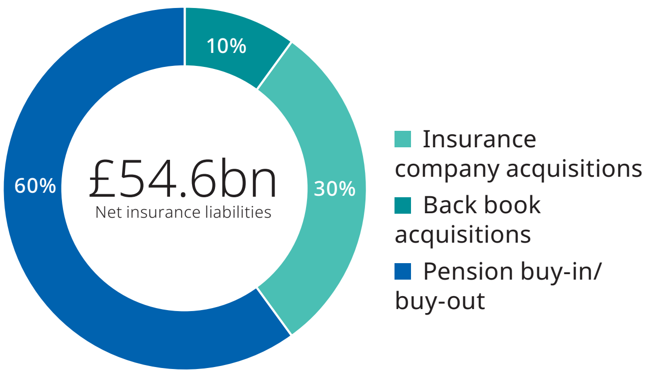
Rothesay is the UK's largest specialist pensions insurer, purpose-built to protect pension schemes and their members' pensions. Our singular focus is to secure pension annuities for the future, providing certainty as well as genuine service excellence for all our policyholders.

Our conservative investment strategy and prudent underwriting mean we are trusted by 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.

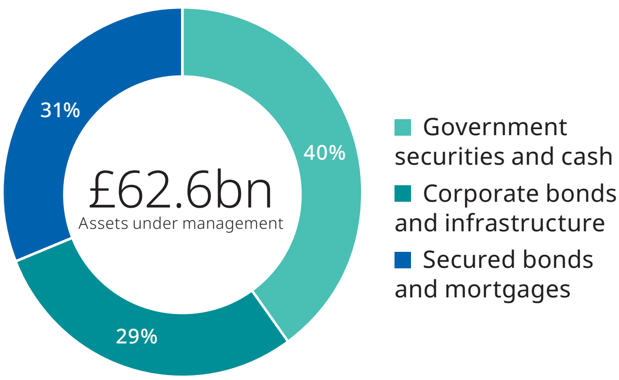
Underpinned by sophisticated risk management, our expert in-house investment team is continually developing new ways to drive predictable, dependable returns that minimise risk and create real security.

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.

Securing pension annuities from pension schemes and other insurers



Backed by high quality investments with average credit rating AA



What we deliver

Real financial security

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

Genuine service excellence

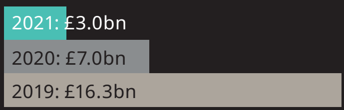
We are focused on every detail, to provide genuine service excellence for every one of our policyholders and trustees.

2021 performance

- Solvency capital requirement (SCR) coverage of 229% (2020: 203%) giving us significant capital for future growth opportunities.
- Maintained underwriting discipline in subdued market conditions, leading to new business premiums of £3.0bn (2020: £7.0bn).
- IFRS profit before tax of £918m (2020: £1,474m).
- New equity release mortgages of £1.4bn and launch of fixed-for-term UK mortgages.
- Welcomed 350,000 policyholders to Rothesay following High Court approval of the transfer of the Prudential annuity portfolio.
- Publication of inaugural environmental, social and governance (ESG) report including the average carbon intensity of Rothesay's investment portfolio - 188 t CO_2e/mm USD revenue, compared to an average of 215 t CO_2e/ mm USD revenue across the iBoxx sterling index.
- Achieved carbon neutrality of our own operations ahead of our 2023 goal.
- Continued to deliver high quality customer service as recognised by the Pensions Administration Standards Association, the independent body dedicated to improving standards in UK pension administration. We were re-accredited with their Gold standard in January 2022.

Performance at a glance

New business premium **APM**[1]

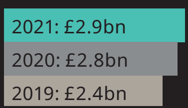


£3.0bn

Solvency Capital Requirements (SCR) coverage **APM**

229%

Paid to policyholders in the year



£2.9bn

Percent reinsured **APM**

84%

Number of policies

837,721

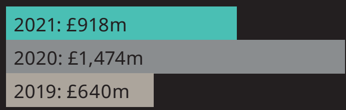
Customer satisfaction **APM**

94%

A glossary of terms used can be found on page 123.

1 APM – Alternative Performance Measure; please see page 28 for further details.

IFRS profit before tax

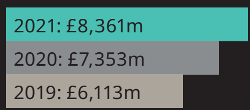


£918m

Assets under management **APM**

£62.6bn

Own funds



£8,361m

Section 2

Strategic report

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

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Good results and substantial capital mean that we are well positioned for growth opportunities.

Addy Loudiadis
Chief Executive Officer

Chief Executive's statement

The impact of the ongoing 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.

New business premium (APM):

£1.6bn

2020: £7.0bn

SCR coverage (APM):

204%

2020: 203%

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. Regular stress testing and live monitoring of the financial and solvency position of Rothesay has allowed us to respond dynamically as the market evolved, ensuring that we ended 2021 with a very robust SCR coverage ratio of 229% (2020: 203%), positioning us well for future opportunities ahead.

Group performance

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 £918m (2020: £1,474m). 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. As a business, we are also always looking for innovative ways to invest in long-term, secured and high-quality assets. 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.

Following the success of Rothesay Asset Management US, in 2021 we set up Rothesay Asset Management Australia to assist us in sourcing investments in Australia.

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).

Chief Executive's statement
continued

As we look ahead to the next year, we are extremely encouraged by the number and size of the schemes starting de-risking conversations and our resulting new business pipeline. We expect 2022 to be a very busy year and have been successful in raising £740m of Restricted Tier 1 (RT1) capital (denominated in sterling and US dollars) in preparation for anticipated new business volumes.

> We are delighted to have been awarded the Risk Management Provider of the year at the Pensions Age Awards 2021.

The award recognises the pension provider that has delivered the most innovative solutions to help pensions schemes' manage, or remove, their risks.

Our assets under management have increased to £62.6bn (2020: £62.1bn) as a result of new business, offset by changes in market conditions.

More details on our financial performance can be found in the financial review on page 26.

Risk and capital management

The macroeconomic environment worldwide continued to be challenging during 2021. We have seen significant increases in long-term interest rates with day-to-day volatility and tightening credit markets making it difficult to find attractive investment opportunities that meet our lending criteria.

With these types of market conditions, we rely more than ever on Rothesay's innovative mindset that allows us to better navigate risk while creating new ways to deliver security for our policyholders. Having detailed real-time information is critical for the successful and efficient operation of any insurance business. Our market-leading risk management systems provide us with a strong competitive advantage and allow us to be proactive and to navigate even the most difficult markets. Continued investment in the systems and people to manage the risks we assume on behalf of our policyholders is a key part of our strategy.

Our balance sheet remains very strong with Own Funds of £8.4bn (2020: £7.4bn) and an SCR coverage ratio of 229% (2020: 203%), well above our target operating range of 130% to 150%. Our performance, along with the strategic issuance of RT1 notes, gives us significant surplus capital to write large volumes of new business in 2022 and beyond. Rothesay's liquidity has also remained robust throughout the market turmoil this year and we continue to hold large liquidity buffers.

It is still unclear as to whether COVID-19 will materially impact future mortality. In valuing our liabilities, we have allowed for reported deaths and have assumed no improvements in longevity, for 2020 but we have not made any material 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.

We continue to hedge market and longevity risk exposures, using robust collateral provisions to mitigate counterparty risk. We entered into two new reinsurance agreements in 2021, leading to reinsurance of 84% of our longevity exposure (2020: 87%).

Our policyholders

Providing over 837,000 policyholders with a safe and secure pension is at the heart of what we do. We pride ourselves on the level of service we provide and I am pleased to say that we have maintained our high service standards during the challenges of remote and hybrid working, with over 94% (APM) (2020: 95%) of customers rating the quality of service received as good or excellent.

Our commitment to consistently high quality administration continues to be recognised by the Pensions Administration Standards Association (PASA), the independent body dedicated to improving standards in UK pension administration. We were re-accredited with their Gold standard in January this year.

On 24 November 2021, the High Court approved the transfer of around 350,000 Prudential annuity 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.

Our people

Our people are a key strength of Rothesay and despite all the challenges of the pandemic, the commitment from all of our colleagues has meant that the business has continued to operate normally. In September, we were delighted to welcome staff back to the office, taking the time to reconnect in person. Being able to meet and collaborate in person is invaluable, facilitating creativity and learning, and strengthening our culture so we were disappointed about the return to homeworking and look forward to our operations returning to normal as Government restrictions are lifted.

Throughout 2021, we have continued to recruit, particularly to strengthen our control functions in line with our planned growth and to support continuing development of our IT platform. By the end of the year, Rothesay had 359 employees (2020: 305). To help ensure that Rothesay's culture is maintained as we grow, we spent time in 2021 documenting and then sharing our cultural values, articulating what makes the culture at Rothesay so special and defining the professional characteristics that we want to see our people embody.

Environmental, Social and Governance matters

Rothesay is committed to playing its part in combating climate change and global warming. In May, we announced that we had become a member of the NZAOA. The NZAOA requires members to transition their investment portfolios to net zero greenhouse gas emissions by 2050, aligned with a maximum temperature rise of 1.5 degrees above pre-industrial levels as outlined in the Paris Agreement.

Soon after we joined the NZAOA, we published our 'Pathway to Net Zero' plan: a comprehensive strategy to achieve net zero by 2050, including a commitment to a 20% reduction in the Carbon Intensity of our investment portfolio by 2025. We also wanted to make sure our in-house operations were carbon neutral; something I'm delighted to report that we achieved this year, ahead of our original target.

In 2019, Rothesay established the Rothesay Foundation[1] with the aim of supporting organisations that seek to improve the quality of life for older people, helping them to live their lives in a happy, safe and fulfilling way. We know that there are rising levels of poverty in the UK's pension-age population, particularly in cities and large urban areas where the cost of living is often much higher. To help combat this in 2021, the Rothesay Foundation was pleased to partner with Iceland Foods and Age UK to provide grocery vouchers for the most vulnerable elderly people living in the London borough of Lambeth, creating a 'Lambeth Winter Cheer' campaign. Based on our insights from this work, we hope to support many other areas over the years ahead.

For more information see our Environmental, Social and Governance report 2020.

Looking forward

Our disciplined approach to underwriting, our patient and innovative investment strategy and our strong financial position mean that we enter next year well placed to take advantage of growth opportunities. We are already seeing a robust new business pipeline with some industry specialists predicting that 2022 could be a record year for the total bulk annuity market.

While tight credit spreads make it challenging for us to find appropriate long-term investments that meet our stringent criteria, we continue to look for new investment opportunities and pride ourselves on being innovators in our sector. As the market stabilises, and the economic recovery gains further momentum, we look forward to an exciting and busy year ahead.

Finally, I would like to take this opportunity to thank our people and our administration partners for their continuing efforts, as well as our shareholders for their committed long-term support. Thanks to them all, I am confident that Rothesay will continue to experience significant growth, continuing to provide pension security for our policyholders and value to our shareholders over the long term.

Addy Loudiadis
Chief Executive Officer
11 February 2022

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

Our markets

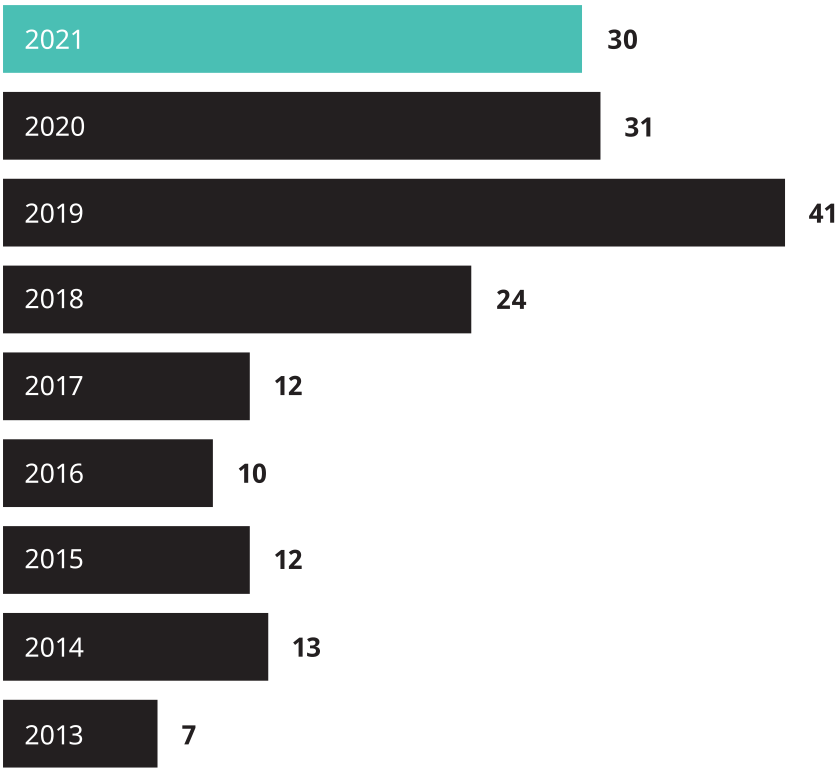
1. Pension risk transfer

Rothesay's core market is growing strongly

Rothesay's core market is in pension risk transfer. Almost 90% of UK defined benefit pension schemes are now closed and such benefits are no longer offered to new employees. This means companies and trustees want to de-risk their pension scheme liabilities. This is where we step in, either with a buy-in or buy-out.

A combination of investment performance, sponsor funding, liability management and the run-off of closed schemes, means that de-risking is increasingly affordable for schemes. While the impact of the COVID-19 pandemic meant that the market was slightly subdued in 2021, there remains strong demand and next year is already looking incredibly busy, with some commentators suggesting that 2022 could be a record year for pension risk transfers.

Growing pension risk transfer market (£bn)



Showing UK pension risk transfers completed per year.
2021 estimate sourced from Hyman's Robertson market reports.

Securing UK pension schemes

For many of our clients, pension scheme protection is a two-step process, starting with bespoke insurance, leading to a complete transfer of members into our care.

Buy-in

Bespoke insurance to bring immediate financial security to pension schemes.

In a buy-in, the scheme purchases a bulk annuity insurance policy which is held as an asset of the scheme.

This makes Rothesay responsible for all the risks relating to the insured benefits e.g. longevity risk, market risk, interest rate and inflation.

The scheme is still responsible for paying pensions to its members – Rothesay has no direct relationship with the scheme members.

Buy-out

Full transition of the scheme and members into Rothesay's care, for total protection.

In a buy-out, Rothesay takes full responsibility for the pension scheme and the employer's obligations to its members.

The pension scheme is wound up and the assets move over to Rothesay. The scheme members become Rothesay policyholders and receive new individual policies.

Our markets
continued

2. Wholesale annuity

Our second source of business is in acquiring back-books of annuities from insurance companies, either through acquisition of companies or blocks of business.

The opportunity to acquire back-books continues to look positive; many companies are wishing to leave or reduce their exposure to the individual annuity market and we are able to help with our extensive experience in the sector.

Acquisition of companies
Traditional company acquisition, where we take on all of the company's assets, liabilities and obligations, including the economic exposure and administration of their annuities.

Acquisition of blocks of business
1. Reinsurance transaction between Rothesay and the insurer selling the block. During this step, the insurer is responsible for administration but Rothesay has full economic exposure.
2. Approximately 18 months later, the goal is a Court-sanctioned transfer of the business to Rothesay. Now, we then take over the administration as well as the economic exposure.

Timeline for wholesale annuity transactions

	2011	2014
Transaction	Acquisition of Paternoster	Acquisition of MetLife Assurance Limited
Size of transaction	£3bn	£3bn
Number of policies	42,000	24,000
Type of business	Bulk annuities	Bulk annuities

Progress in 2021

In November 2021, we received Court approval for the transfer of around 350,000 Prudential annuity policies to Rothesay as originally envisaged by us and Prudential when the reinsurance agreement was first entered into. Around 33,000 policies will continue to be covered by a long-term reinsurance agreement as we did not seek approval to transfer them.

The transfer was effective from 15 December 2021 and from that date Rothesay is responsible for all transferring policyholders, although Prudential has been continuing to do the administration on our behalf until it can be transferred to Rothesay's third party administrators.

2015	2016	2018
Purchase of annuity portfolio from Zurich UK Life (reinsurance followed by Court-approved transfer in 2017), with three follow-on transactions	Purchase of annuity portfolio from Aegon UK (reinsurance followed by Court-approved transfer in 2017)	Purchase of annuity portfolio from Prudential (reinsurance followed by Court-approved transfer of the majority of the portfolio in 2021)
£1bn	**£6bn**	**£12bn**
28,000	**187,000**	**400,000**
Individual and bulk annuities	Individual and bulk annuities	Individual and bulk annuities

Our business model: Securing the future for our policyholders

Underwrite the liabilities

We achieve maximum pre-deal certainty for trustees and pension scheme members through our meticulous underwriting and due diligence.

We model the benefits of every single policyholder and project them to maturity. This means we can accurately estimate the cost of providing the insured benefits and holding the risk capital.

We scrutinise all new business to ensure we minimise risk and will be able to achieve appropriate returns for our investors.

Hedge the risks

We assess the risk impact of transactions before completion so we can lock in the economics. This gives certainty to clients and protects our balance sheet.

We reinsure the majority of our exposure to longevity risk. This process also gives independent third party price verification.

Collateral management is an integral part of the Group’s activities. We closely monitor collateral so that our security is not compromised by market shifts.

Invest the assets

We seek assets which match our liability cash flows, meet our environmental objectives and provide an appropriate risk-adjusted return.

Our portfolio is rated on average as AA and is made up of three diverse categories:

1. Cash and government bonds.
2. Infrastructure and other corporate bonds.
3. Secure, illiquid assets.

Deliver the pension benefits

We have strategic partnerships with well established pension administrators – WTW, Mercer and Capita Employee Solutions.

Working with these partners gives us scale and contingency capabilities. High levels of automation and sophisticated technology enable our partners to interact with our systems to eliminate discrepancies and deliver excellent customer service.

Our investments

We remain overweight in cash and gilts as we go into 2022, allowing us to take advantage of investment opportunities as they arise.

Our in-house team is responsible for the management of Rothesay's £62.6bn asset portfolio. Assets are sought which match our liability cash flows and which provide an appropriate risk-adjusted return as well as being in line with our responsible investment policy. Rothesay operates a cautious investment strategy which seeks to diversify exposure and actively manages risk. We are constantly looking for new ways to reduce risk and achieve the dependable returns that create real security for people's pensions in the future.

As a result of new business premiums, Rothesay has substantial cash and gilts to switch into longer-term assets. Tight credit spreads have meant that there have been fewer opportunities to invest in assets providing an appropriate risk-adjusted return during 2021 but we are making good progress in doing so. We remain patient and will continue to be disciplined and selective about making investments. Where possible, we have also been proactively switching assets in line with our climate goals and to improve risk-adjusted returns.

The in-house team considers financially material environmental, social and governance (ESG) factors as part of the investment process and these factors are formally documented in all committee approval papers for new investments in order to ensure that appropriate account is taken of them. We are aligning our investment portfolio with the goal of the Paris Accord to limit global warming to 1.5°C above pre-industrial levels and are committed to supporting a low carbon economy in which the UK achieves carbon neutrality by 2050.

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

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

We are already a leading lender to the social housing sector and are very supportive of the Government's objective to secure more investment in long-term illiquid infrastructure assets, remaining closely involved with the Government's Productive Finance Working Group.

The charts on the next pages provide a breakdown of our investment portfolio at 31 December 2021 by sector and geography.

Corporate bonds and infrastructure

The table below provides a summary by sector of our corporate bond and infrastructure holding:

Sector	Percentage
Infrastructure	7
Banking & insurance	5
Real estate	5
Education	3
Communications & media	2
Consumer goods & services	1
Healthcare	1
Technology & electronics	1
Automotive & transportation	1
Industrial & energy	1
Retail	1
Total	28

Of our £18bn holding of corporate bonds and infrastructure, around 31% (2020: 30%) (or 9% of assets under management) is rated BBB and of those only £0.3bn is rated BBB- (2020: £0.2bn). The remainder are rated A or above. Rothesay holds no sub-investment grade bonds.

Mortgages

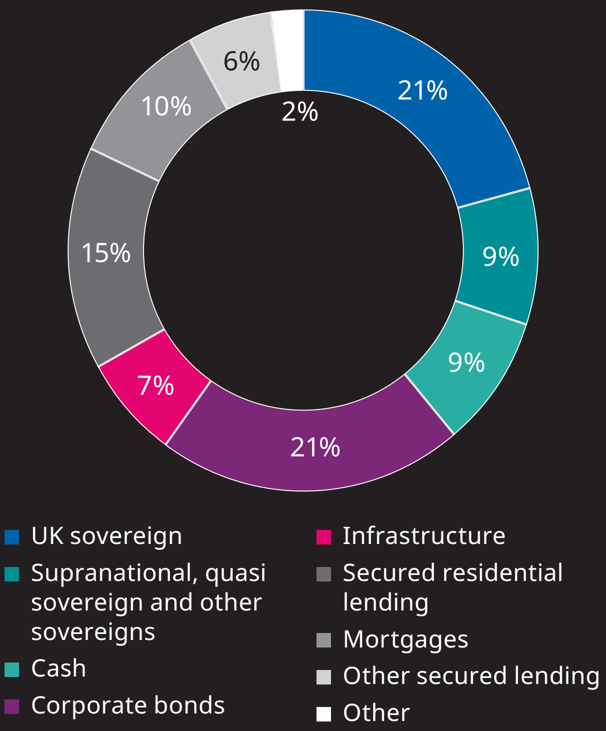
We have seen strong equity release mortgage (ERM) volumes through our ERM partners during 2021 and we have also acquired two back books of ERMs. As at 31 December 2021, our total ERM portfolio including the back books has increased to £5.3bn (2020: £4.2bn) or 8% of assets under management (2020: 7%). We also continue to fund Dutch residential mortgages and have begun to fund fixed-for-term (FFT) mortgages.

International diversification

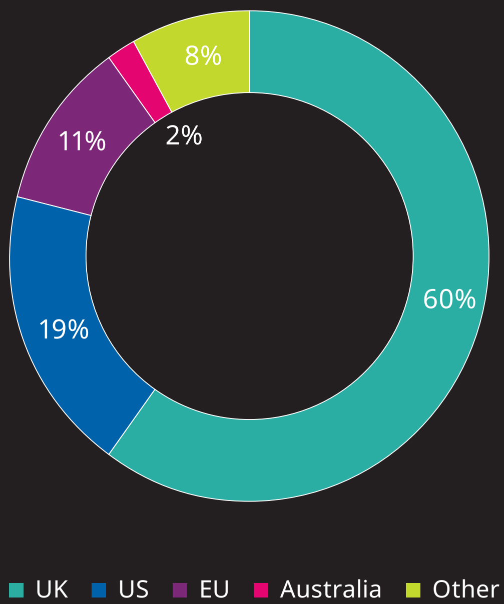
In 2017, we set up Rothesay Asset Management US to help Rothesay to originate assets in the US. We continue to grow the team in New York and around 19% of our investment portfolio is now invested in the US.

We already have a small portfolio of Australian investments and, following the success of Rothesay Asset Management US, we have decided to set up a similar operation, Rothesay Asset Management Australia, to help us to originate assets in Australia.

Our investments



Internal diversification



Why we are successful

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

Purpose-built

We were founded with a single purpose: to secure UK pensions at scale, exceptionally well and within a robust regulatory environment.

We are designed from the ground up with modern systems, structures and capabilities to protect and deliver pensions more securely and effectively.

Financial strength

We have an extremely strong capital position with an absolute focus on maintaining solvency. Our safety-first approach to writing business means we rigorously analyse every risk and would rather invest in no business than risky business.

Unique integration

Our governance is robust yet agile, and our team think diversely but operate as one, blending actuarial rigour with investment expertise.

Every decision is a product of our multi-disciplinary management team who are experts across investments, underwriting and risk management.

Sophisticated technology

Our industry-leading, purpose-built technology platform underpins the whole business, so that we are always informed and can adapt in real time to market changes.

Our engineers drive its evolution so that our platform grows with the industry.

Original thinking

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

Our original thinking has led to several pioneering firsts, including our rapid response times and our dynamic technology-focused approach.

Service excellence

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

Our straightforward and straight-talking approach helps us build clarity and trust in every interaction.

Our strategy and KPIs: Measuring success

Financial security

	2020	2021
SCR coverage Indicates capital strength through comparing how RLP is capitalised relative to the regulatory requirement (APM)	203%	**229%**
Assets under management Measures business size to indicate ability to diversify and operational resilience (APM)	£62.1bn	**£62.6bn**
External ratings Impartial indicators of our financial strength		**A+** Fitch Ratings **A3** Moody's Investors Service

2021 progress:

- Maintained a robust solvency position against a volatile economic backdrop.
- Raised £740m Restricted Tier 1 debt in order to take advantage of future new business opportunities.
- Reinsured £2.6bn of liabilities giving effective reinsurance coverage of 84%.
- Continued to make good progress in the development of the full internal model (FIM).
- Following the annual review by the credit rating agencies, both reaffirmed our ratings and Moody's updated us to positive outlook.

Opportunities in 2022 and beyond:

- Continue to maintain a robust solvency position.
- Continue to develop our climate risk modelling and measurement capabilities.
- Implement the FIM covering all risks subject to approval by the Prudential Regulation Authority.
- Continue to optimise our capital structure through appropriate levels of equity and debt.

Steady growth

New business premiums
Signals Rothesay's growth (APM)

	2020	2021
New business premiums	£7.0bn	**£3.0bn**

2021 progress:

- The subdued new business environment meant that growth in 2021 was relatively modest. We are not a volume-driven business and have maintained our disciplined approach to new business, remaining patient in a competitive environment to ensure returns are appropriate. In 2021, we de-risked the liabilities of ten pension schemes, which generated £3.0bn of new business.
- Grew the Rothesay team by 54 talented individuals across the whole Group.
- Strengthened Rothesay's profile as an investor overseas by growing Rothesay Asset Management US by 4 people and by setting up Rothesay Asset Management Australia.
- Started to fund a range of UK fixed-for-term mortgages, further diversifying our investments.

Opportunities in 2022 and beyond:

- Continue to assist pension schemes to de-risk using buy-in and buy-out policies.
- Continue to strengthen our in-house IT capabilities to continue developing our IT platform.
- Continue to strengthen Rothesay's profile as an investor overseas, to allow us to continue to diversify investments.

Our strategy and KPIs: Measuring success

Service excellence

	2020	2021
Service quality Measures the number of policyholders who rate our service 'good' or 'excellent' (APM)	95%	**94%**
Complaints Measures satisfaction through number of complaints upheld per 1,000 customers (APM)	0.42	**0.51**

2021 progress:

- Achieved excellent results from independent benchmarking by the Institute of Customer Service.
- Performance throughout the year has generally been above our stringent benchmarks across all our strategic administration partners.
- Maintained low complaint rates and high satisfaction despite the ongoing challenges of COVID-19.
- Continued to roll out our online service to our policyholders.
- Implemented a new in-house approach to the administration of pensioner buy-ins.

Opportunities in 2022 and beyond:

- Continue to excel in customer service.
- Transfer administration of the Prudential portfolio to Rothesay's third party administrators.
- Migrate some existing pensioner buy-ins to the new in-house model and build on our in-house capabilities.

Reliable performance

		2020	2021
IFRS profit before tax Measures profitability, by capturing all recurring and non-recurring items	›	£1,474m	**£918m**
Employee engagement Measures the number of employees who say they are proud to work at Rothesay	›	92%	**92%**
Carbon intensity Measures carbon intensity of Rothesay's investment portfolio	›	188t CO2e / mm USD borrower revenue[1]	

2021 progress:

- Invested assets received from 2020 new business in accordance with our underwriting targets, contributing to 2021 IFRS profits.
- Maintained high levels of employee engagement despite the impact of homeworking.
- Published our inaugural ESG report setting out detailed carbon intensity data.
- Joined the NZAOA and committed to reducing the carbon intensity of our investment portfolio by 20% by 2025.
- Achieved carbon neutrality of our own operations, ahead of our 2023 target.

Opportunities in 2022 and beyond:

- Increase our market penetration – the total market volume has grown considerably in the last few years, but only around 10% of the UK's £2.1 trillion of pension liabilities are fully insured.
- Maintain employee engagement despite the continuing growth of the Company.
- Make progress towards our ambitious environmental targets.

1 Comparative not avaliable

Strong IFRS profits driven by investment of the assets received as premiums in 2020.

Andrew Stoker
Chief Financial Officer

Financial review

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

Consolidated financial statements have been prepared for the year ended 31 December 2021 to reflect the increasing materiality of RLP's subsidiaries. As at 31 December 2020, the Company produced standalone financial statements and therefore the consolidated comparatives included in these consolidated financial statements have not been audited.

IFRS Financial performance

Rothesay made a profit before tax of £918m (2020: £1,474m). This is lower than for 2020 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 on the next page provides an explanation of the way in which profits have been generated. Further explanation of the line items can be found in the notes on Alternative Performance Measures on page 120.

New business profits **(APM)** in the analysis are calculated assuming full investment of premiums and the short-term impact of any under-investment is reported separately in the table. New business profit **(APM)** for the 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) **(APM)** 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) **(APM)**. 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) **(APM)**. These profits mainly arose from the release of prudent margins as the business runs off and as members exercise their options.

A combination of demographic and expense assumption changes and model refinements led to an increase in profits of £142m (2020: £284m). Further detail is provided in note E.3.

Acquisition costs increased from £114m to £137m as a result of the growth in the business and the increase in expenses relating to share-based payments (see note I.2).

Rothesay made economic profits of £149m (2020: £212m) **(APM)**. Economic profits **(APM)** 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 were partially offset by the impact of increases in long-term interest rates and the strengthening pound.

Financial review
continued

Financial performance

(Alternative analysis of profit generation) (APM)	**2021 £m**	2020 unaudited £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 costs	**(137)**	(114)
Administration expenses	**(59)**	(53)
Operating profit before tax	**908**	1,404
Borrowing costs	**(114)**	(108)
Project and other one-off expenses	**(25)**	(34)
Economic profits	**149**	212
IFRS profit before tax	**918**	1,474

Transfer of Prudential annuities
Prior to the transfer of the Prudential annuities to Rothesay, the insurance contract 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 insurance contract liabilities decreased by £221m and Rothesay's reinsurance liabilities increased by the same amount. The net insurance contract liabilities are unchanged.

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. Given the strength of the UK property market, we have removed the 5% downward adjustment to house prices when calculating the impact of the no negative equity guarantee of ERMs.

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.

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

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

Rothesay therefore uses a number of Alternative Performance Measures (APMs) which focus on value generation and capital strength. Further information on Rothesay's APMs can be found on page 120, including definitions, why the measure is used and, if applicable, how the APM can be reconciled to the nearest GAAP measure. Rothesay uses the symbol APM to highlight APMs throughout the financial statements.

IFRS income statement highlights

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

Income statement highlights	**2021 £m**	2020 unaudited £m	Commentary
Gross premiums written	**3,205**	7,281	Gross written premiums are made up of new business of £3.0bn (2020: £7.0bn) and regular premiums of £0.2bn (2020: £0.3bn) generated on the inwards longevity reinsurance business written in prior years.
Net premiums written	**1,569**	5,869	Net premiums written represent the gross premiums written less the £1,636m (2020: £1,412m) of regular premiums ceded to reinsurers.
Investment return	**48**	4,648	The reduction in investment return has been driven by the increase in long term interest rates over the period.
Total revenue	**1,617**	10,517	
Net claims paid	**(1,380)**	(1,491)	Claims paid represent the total payments due to policyholders during the year of £2.9bn (2020: £2.8bn) less the reinsurers' share of such claims of £1.5bn (2020: £1.3bn).
Change in net insurance liabilities	**1,018**	(7,232)	The change in insurance liabilities in 2021 was largely as a result of new business and changes in market conditions as well as the run off of liabilities.
Operating expenses	**(221)**	(201)	Operating expenses consist of £59m (2020: £53m) of administration expenses, £137m (2020: £114m) of acquisition expenses and £25m (2020: £34m) of non-recurring and project expenditure.
Finance costs	**(116)**	(119)	Finance costs mainly represent interest payable on borrowings.
Total claims and expenses	**(699)**	(9,043)	
Profit before tax	**918**	1,474	
Income tax	**(176)**	(277)	Rothesay's effective tax rate is 19% (2020: 18.8%).
Profit after tax	**742**	1,197	

Financial review
continued

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

Statement of financial position highlights	2021 £m	2020 unaudited £m
Financial investments	**83,845**	93,712
Reinsurance assets	**641**	616
Other assets	**1,525**	1,947
Total assets	**86,011**	96,275
Share capital and share premium	**2,463**	2,463
Tier 1 notes	**793**	347
Reserves	**2,883**	2,143
Total equity	**6,139**	4,953
Insurance contract liabilities	**54,030**	55,247
Reinsurance liabilities	**1,217**	993
Payables and financial liabilities	**22,784**	33,546
Borrowings	**1,725**	1,426
Other	**116**	110
Total liabilities	**79,872**	91,322
Total equity and liabilities	**86,011**	96,275

Assets under management
The fall in the value of financial investments, primarily as a result of changes in market conditions, meant that total assets decreased from £96.3bn as at 31 December 2020 to £86.0bn as at 31 December 2021. Much of the fall in the value of financial investments was offset by a similar fall in the value of payables and financial liabilities. The net impact of these movements meant that assets under management **(APM)** increased from £62.1bn at 31 December 2020 to £62.6bn as at 31 December 2021. Assets under management can be derived by adjusting total assets for reinsurance, payables, derivatives and collateralised financing. A reconciliation is provided in the notes on Alternative Performance Measures on page 120.

Payables and financial liabilities decreased from £33.5bn as at 31 December 2020 to £22.8bn at 31 December 2021 largely as a result of the changes in economic conditions. Payables are dominated by derivative financial instruments and collateralised financing agreements. Derivatives are used to manage market and credit risk. The derivative liability as at 31 December 2021 of £20.7bn (2020: £30.4bn) is offset by derivative assets of £20.8bn (2020: £30.7bn).

Reinsurance
During 2021, we entered into two new reinsurance contracts covering around £2.6bn of longevity risk in relation to both new and existing business. As noted earlier, reinsurance liabilities also increased as a result of the transfer of reinsurance associated with the Prudential annuities. Some of Rothesay's reinsurance is an asset on an IFRS basis because projected claims exceed the regular premiums due on some longevity reinsurance contracts but overall the reinsurance represents a net liability of £576m (2020: net liability of £377m).

Total equity
The increase in total equity (an increase of £1,186m from £4,953m at 31 December 2020 to £6,139m at 31 December 2021) was driven by the increase in retained earnings during 2021 and the issuance of £450m of sterling-denominated RT1 notes. For IFRS purposes, the RT1 notes denominated in USD are treated as debt (see Borrowings on the next page).

Insurance liabilities
Insurance contract liabilities reduced from £55.2bn as at 31 December 2020 to £54.0bn as at 31 December 2021. This move was largely driven by an increase in the valuation interest rate used to discount the liabilities, partially offset by increases in assumed long-term rates of inflation and the impact of new business net of the run off of the liabilities (see note E.3(e)).

Borrowings

On 27 October 2021, RLP issued $400m of RT1 notes. Unlike the sterling denominated RT1 notes, these US Dollar-denominated notes are accounted for as debt and have increased borrowings accordingly.

Changes in accounting standards

IFRS 17

IFRS 17, the accounting standard for insurance contracts, is due to be implemented on 1 January 2023. The standard will have a significant impact on the way that Rothesay's results are reported because the standard rebuilds performance measurement in areas ranging from a new definition of insurance revenue to the elimination of upfront profits and spreading of profit across the lifetime of the contract. As a result, and in common with other annuity providers, we anticipate a material day one loss when the standard is implemented due to the requirement to retrospectively apply IFRS 17 to historic business, followed by slower emergence of IFRS profit. The day one loss will not impact profit in the year of adoption but it will be reflected in the IFRS balance sheet. Adoption of the new standard is not expected to materially impact Rothesay's solvency position.

During 2021, the IFRS 17 project team has continued to make good progress. We have largely determined the way in which we will interpret the standard and modelling work is now underway. During 2022, we aim to finalise the IFRS 17 balance sheet as at 31 December 2021 so that we can begin to track IFRS 17 performance in parallel with current IFRS standards. The IFRS 17 project is overseen by the Audit Committee.

IFRS 9

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

Capital management

Rothesay's capital position has remained robust throughout 2021

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 our regulatory obligations;
- to match the profile of our assets and liabilities, taking account of the risk inherent in the business;
- to allocate capital efficiently to support new business growth;
- to retain financial flexibility by maintaining strong liquidity; and
- to provide an appropriate return to shareholders.

Rothesay aims to maintain solvency coverage in the range of 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.

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

As at 31 December 2021, Rothesay had an SCR coverage ratio **(APM)** of 229% (2020: 203%). The solvency positions of RLP is summarised in the following table.

Solvency position of RLP	**2021 unaudited £m**	2020 unaudited £m
Tier 1 capital	**6,925**	5,857
Tier 2 capital	**948**	984
Tier 3 capital	**488**	512
Own Funds **(APM)** available to meet SCR	**8,361**	7,353
SCR	**3,657**	3,623
Surplus above SCR	**4,704**	3,730
SCR coverage (APM)	**229%**	203%
SCR coverage without transitional solvency relief	**181%**	154%

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 amortises linearly to zero, falling by 1/16th on 1 January 2017 and again each year thereafter. An application can be made to recalculate the amount of transitional solvency relief that can be taken if the profile of Rothesay changes materially. We have recalculated the transitional on 31 December 2021, as we are required to do so every two years. The impact of recalculation was to decrease the transitional solvency relief to £1,091m net of the associated impact of tax on Own Funds and allowing for amortisation of 5/16ths (2020: £1,298m allowing for amortisation of 4/16ths). Transitional solvency relief now covers 50% of the risk margin (2020: 57%).

Rothesay's SCR is calculated using a partial internal model (PIM). The PIM means that Rothesay's bespoke models are used for calculation of credit and counterparty risk capital and ensures that the allocation of capital to investment is consistent with the risk inherent in the types of highly secured and collateralised investments which are core to Rothesay's investment strategy. The PIM was originally approved for use from 31 December 2018 and updated during 2019 to reflect feedback received from the Prudential Regulation Authority (PRA) and to cover investments in Dutch mortgages. Work continues on a full internal model, extending the PIM to cover other risk components but for now the standard formula is used to calculate the SCR for all other risk components and for aggregation across risk components. The table below provides a breakdown of the SCR, post-diversification benefit, between modules. Insurance risk relates mainly to longevity risk. Market risk is dominated by spread risk, i.e. the risk that credit spreads widen. The 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

An analysis of the change in surplus above SCR **(APM)** is shown in the table below. Surplus above SCR has increased from £3,730m to £4,704m after allowing for amortisation of 1/16th of transitional solvency relief on 1 January 2021. The biggest drivers of this change were the performance of the in-force book and the additional RT1 notes issued.

Given the impact of the Loss Absorbing Capacity of Deferred Taxes (LACDT) adjustment when IFRS profitability varies from year to year, we have adjusted the analysis to allow for LACDT effects. Differences between IFRS accounting standards and Solvency II mean that management actions and changes in economic conditions can have very different impacts on the two bases. All numbers are shown net of tax impacts and allow, where relevant, for changes in transitional solvency relief for 2021 and 2020.

Change in surplus	2021 £m	2020 £m
Opening surplus	**3,730**	3,075
Amortisation of 1/16th of transitional on 1 January	**(133)**	(106)
New business (on a fully invested basis)	**(172)**	(450)
Impact of temporarily being invested in gilts	**120**	180
Impact from investing prior year's premiums	**51**	44
Performance of in-force book	**612**	1,013
Non-economic assumption changes	**135**	192
Acquisition costs and administration expenses	**(196)**	(167)
Operating surplus generation	**417**	706
Borrowing costs	**(114)**	(108)
Non-recurring and project expenditure	**(25)**	(34)
Economic conditions	**82**	(73)
Impact of LACDT	**(98)**	164
New capital issuance	**712**	–
Surplus generation	**974**	655
Closing surplus	**4,704**	3,730

A year like 2021 has again demonstrated the importance of having a robust risk management framework.

Peter Shepherd
Chief Risk Officer

Risk management

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 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.

The risk management framework is intended to ensure that we identify and understand all of the risks inherent in the business. Where appropriate, longevity reinsurance, asset liability matching and hedging strategies are used to manage that risk and to optimise use of capital. We also look to mitigate credit risk through investing in assets that benefit from collateral and structural protections.

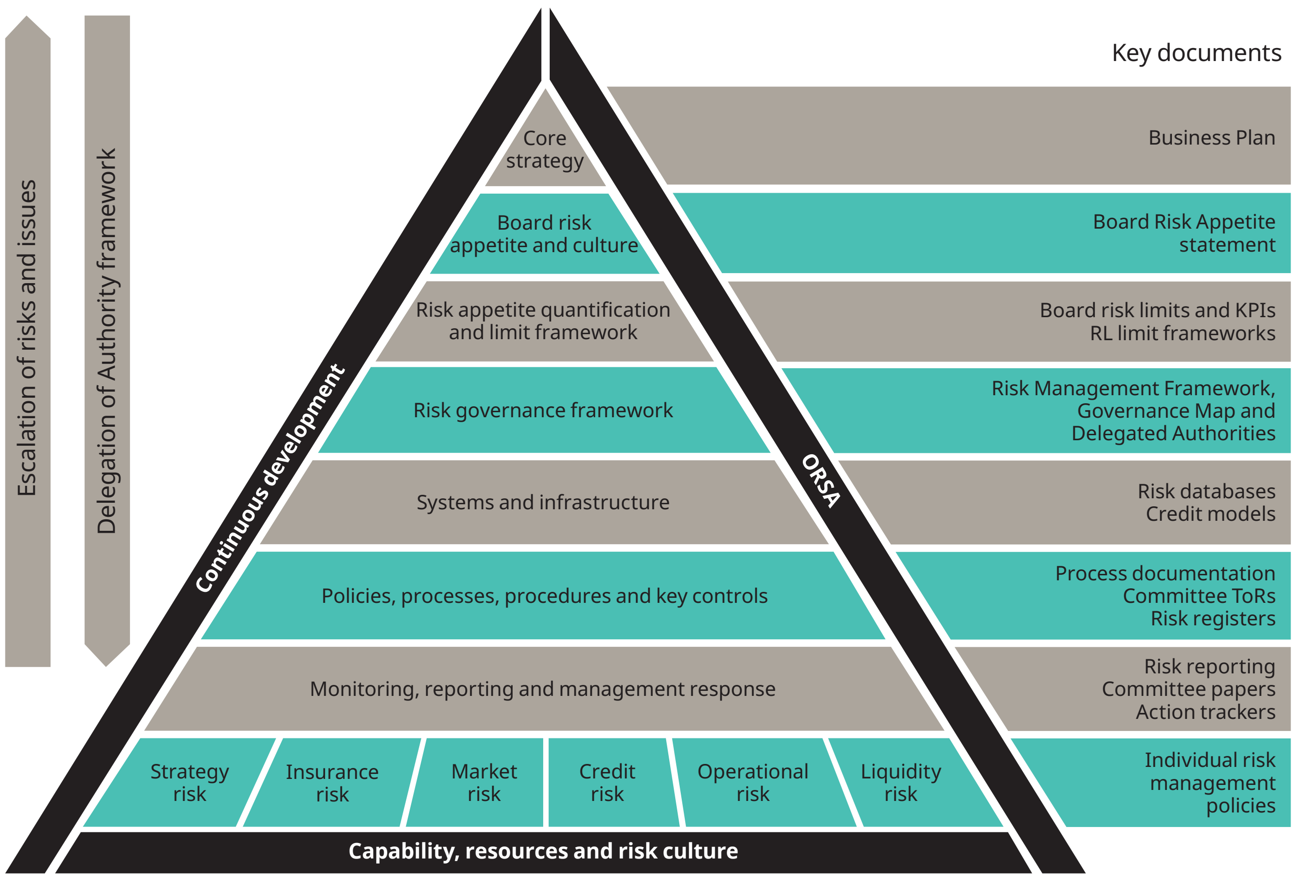
Throughout 2021 Rothesay continued to invest in the risk and compliance function, both through recruitment and by strengthening our capabilities in relation to areas such as climate change and operational resilience.

Risk management framework

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

Further detail on the components of our RMF is provided on the next page. 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.

Risk management
continued



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.

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 on the next page, 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 type	Definition	Risk preference: Undesired	Risk preference: Tolerated	Risk preference: 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 security 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 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 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.

Risk management
continued

- **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.

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.

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

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

Continuous development

The way we think of and manage risk is constantly evolving. The CRO is responsible for developing the RMF to ensure that risk management remains effective.

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. Rothesay now manages assets of over £62.6bn and insures 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 means our reinsurance coverage is now 84% (2020: 87%).

Longevity reinsurance 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.

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 below).

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 SONIA as the basis for setting the risk-free rate under IFRS and Solvency II.

Risk management
continued

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. Potential changes include a reduction in the risk margin, changes to the matching adjustment and a relaxation of matching adjustment rules. Once the PRA has analysed the results of the QIS, it is expected to publish a consultation paper on proposed reforms. The PRA has stressed that nothing in the QIS exercise should be taken as a signal that the PRA has reached any settled policy decisions and hence it is difficult to predict the likely outcome of any future reform.

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

Over the longer term there are risks relating to 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.

Principal risks and uncertainties facing Rothesay

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

In the table, strategic priorities 1 to 4 refer to:
1. Financial security **2.** Steady growth **3.** Service excellence **4.** Reliable performance

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

Risk	Mitigation	Strategic priority	Change from last year
Credit risk The risk that an investment counterparty's creditworthiness deteriorates or that the counterparty defaults. Our financial and/or capital position could be adversely impacted by downgrades, credit spread widening or defaults.	Rothesay carefully selects the investments it makes in order to generate an adequate risk-adjusted return, has a preference for investments with structured protection such as collateral, and may purchase external credit protection to mitigate the impact of any defaults. Rothesay maintains a highly experienced market-facing team as well as a second-line internal credit risk team who regularly monitor and assess the credit risk associated with its investments.	1,4	Although 2021 saw a return to economic growth, rising interest rates and inflation may adversely impact some of our counterparties.
Counterparty default risk The risk that a financial counterparty's creditworthiness deteriorates or that a counterparty defaults. Our financial and/or capital position could be adversely impacted by downgrades, credit spread widening or defaults.	Rothesay prefers to work with highly rated and stable counterparties, and to diversify counterparty exposures where appropriate. Derivative and reinsurance contracts are subject to margining requirements to ensure exposures are appropriately collateralised. Rothesay actively monitors counterparties for downgrade risk, and may also purchase credit protection to mitigate specific exposures.	1,4	This risk has reduced compared to the end of 2020 as economies are gradually reopening.
Insurance risk The risk that demographic experience is different from expected. As the pensions insured by Rothesay are guaranteed, our financial and/or capital position could be adversely impacted if, for example, policyholders live longer than expected.	Rothesay invests in both people and modelling capabilities to understand its longevity experience and to help assess what could happen in the future. Rothesay aims to reinsure a majority of its longevity exposure. As at 31 December 2021, Rothesay had reinsured 84% of its longevity risk (2020: 87%) (APM).	1,4	The impact of COVID-19 on future longevity remains uncertain.

Risk management
continued

Risk	Mitigation	Strategic priority	Change from last year
Market risk The risk of adverse movements in interest rates, inflation or currency. Rothesay's financial and/or capital position could be adversely impacted by market movements to the extent that assets and liabilities are mismatched.	Rothesay monitors interest rate risk, inflation risk and foreign exchange risk closely, and uses derivatives to hedge the risks. We also undertake regular scenario testing, for example in relation to a UK downgrade, to understand the impact of potential combinations of stresses. Assets and liabilities are matched as closely as possible, including using inflation-linked assets to meet inflation-linked liabilities.	1,4	Volatile market conditions have continued in 2021.
Property risk The risk of a fall in the value of property. Through its investments secured on property, Rothesay's financial and/or capital position could be adversely impacted by falls in the value of property.	Residential property risk is reduced through strict underwriting criteria, covering, for example, the quality of the underlying property, flood risk and loan-to-value limits by age of borrower. We have also established prudent reserves covering the potential cost of the no negative equity guarantee on equity release mortgages. Exposure to commercial real estate is reduced by ensuring that loans have a low loan-to-value ratio, that there are appropriate covenants and that properties have strong tenants.	1,4	Although there remains uncertainty as to the long-term impact of COVID-19 on office demand, property prices have largely returned to pre-COVID levels and economies are gradually reopening.
Liquidity risk The risk of being unable to realise investments and other assets in order to settle financial obligations when they fall due. Given our holding of illiquid assets, there is a risk that we are unable to meet payments or collateral calls as they fall due in adverse circumstances.	Rothesay has a comprehensive liquidity management framework that ensures sufficient liquidity is held to meet collateral outflows as well as projected expenses and other outflows, in extreme market conditions.	1,4	Market movements in 2021 led to large collateral calls. However, Rothesay's liquidity position has remained robust throughout.
Climate change Rothesay's assets are exposed to the potential impact of climate change. Such risks include: • physical risks such as increasing frequency and severity of flooding; and • transition risks which can arise from the process of adjustment towards a low-carbon economy.	Rothesay has established an ESG Working Group to focus on improving the way in which we manage this risk. Our in-house investment team is responsible for the selection and management of all of Rothesay's assets. The team considers climate-related risk as part of the investment process. In addition, Rothesay considers flood risk as part of its lending policies.	1,4	Rothesay has become a member of the NZAOA and we have set the interim goal of reducing emissions by 20% over the next five years.

Risk	Mitigation	Strategic priority	Change from last year
Operational risk The risk of operational failure, including cyber risk and conduct failures. Rothesay is exposed to the risk of operational failure as a result of failure of a strategic business partner or of its own systems and processes. This could lead to reputational damage and increased costs.	Rothesay has no appetite for material operational risk losses, and has a strong control environment to limit these risks as far as possible. The Customer and Conduct Committee is responsible for ensuring that stakeholders are treated fairly by Rothesay and its strategic business partners. Scenario analysis covering a variety of potential operational risk events is regularly carried out. Rothesay seeks to mitigate cyber risk through robust processes and controls including data protection, penetration testing and staff training, and maintains ISO 27001 and ISO 22301 accreditation. Where Rothesay outsources some of its responsibilities, we undertake thorough due diligence in advance of appointment and then have a strong programme of oversight.	3,4	Through the COVID-19 pandemic, Rothesay and our strategic business partners have demonstrated operational resilience. Cyber and financial crime risk continue to be heightened.
Strategic, political and regulatory risk The risk of adverse changes to the regulatory or political environment. Rothesay's strategy, financial or capital position could be adversely affected by the impact of regulatory or political change.	Rothesay continues to actively monitor the political landscape. Where appropriate, Rothesay carries out lobbying activities or responds to consultations which may directly impact it. Strategic decisions take into account the overall political landscape. Rothesay's potential exposure to leasehold reform is mitigated by structural protections in the loans advanced. Rothesay seeks to have a regular dialogue with regulators in order to ensure compliance, as well as the ability to react quickly to any unanticipated developments. Rothesay seeks to have an open and transparent relationship with regulators at all times. Rothesay is a member of the Confederation of British Industry and the Association of British Insurers and we participate in consultations to ensure that our interests are protected for the benefit of our stakeholders.	1,2,4	There are continued political risks globally. The government's planned reform of the leasehold market could have an adverse impact on Rothesay's loans secured on ground rents. The emergence of defined benefit consolidator schemes could prove a threat to the pension de-risking market if consolidator schemes become a viable alternative means of de-risking pension liabilities for well-funded pension schemes or companies.

Viability and going concern

Viability statement

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

Why we assess viability

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

The period we assess

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

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

How we assess viability

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

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

COVID-19

Scenario analysis has helped inform the Board's assessment of the future potential impact of COVID-19 on Rothesay's financial position. The results of this analysis combined with Rothesay's continuing operational and financial resilience throughout the pandemic mean that the Board is confident that COVID-19 will not impact Rothesay's long-term viability.

Our assessment of viability and going concern

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

Report of the Directors

The Directors present their annual report and the audited consolidated financial statements for Rothesay Life Plc, registered number 06127279, (the Company, Rothesay or RLP) for the year ended 31 December 2021. Comparative information has been presented for the period ended 31 December 2020.

1. General information

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

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

2. Results

The consolidated results for RLP and its subsidiaries (the Group or Rothesay) for the year are set out in the consolidated statement of comprehensive income on page 60. All likely future developments and material assessments of the Group's performance is discussed in the Strategic report. There were no post balance sheet events.

3. Registered office

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

Details of the Company and its subsidiaries, including registered offices, can be found in note H.2.

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

4. Qualifying third party indemnities

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

5. Disclosure of information to auditors

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

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

6. Auditors

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

7. Statement of Directors' responsibilities

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

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

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

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

Report of the Directors

continued

The Directors are responsible for the maintenance and integrity of the Company's financial statements published on the ultimate parent Company's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

8. Internal control and risk management systems

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

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

9. Stakeholder statement

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

10. Streamlined Energy and Carbon Reporting

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

11. Changes in Directors

- Jane Hanson was appointed as an independent Non-Executive Director on 1 January 2021. Edward Giera was appointed on 25 January 2021 and Heather Jackson was appointed on 1 April 2021.
- Simon Morris stepped down from the Board on 13 February 2021.

12. Date of authorisation of issue

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

ON BEHALF OF THE BOARD

Addy Loudiadis
Chief Executive Officer
11 February 2022

Rothesay Life Plc

Board of Directors
Chairman
Naguib Kheraj

Executive Directors
Addy Loudiadis
Tom Pearce
Andrew Stoker

Shareholder Non-Executive Directors
Tim Corbett
Robin Jarratt

Independent Non-Executive Directors
Stan Beckers
Edward Giera
Jane Hanson
Ray King
Heather Jackson
Terry Miller
Charles Pickup
Bill Robertson

Independent auditors' report to the members of Rothesay Life Plc

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2021 and of the Group's profit and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and accounts 2021 (the "Annual Report"), which comprise: Consolidated and Company statements of financial position as at 31 December 2021; the Consolidated statement of comprehensive income, the Consolidated and Company cash flow statements, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

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

Independent auditors' report to the members of Rothesay Life Plc

continued

Our audit approach

Overview

Audit scope

- Consolidated financial statements have been prepared for the year ended 31 December 2021 to reflect the increasing materiality of the Company's subsidiaries. Our audit scope has been determined to provide coverage of all material Group and Company financial statement line items. As at 31 December 2020, the Company produced standalone financial statements and therefore the consolidated comparatives included in these consolidated financial statements have not been audited and are therefore labelled as such.
- We have performed audit procedures that have assessed the extent of the ongoing impact of COVID-19, in partic ular on the valuation of insurance contract liabilities, ability to continue meeting regulatory solvency capital requirements, and financial performance, as well the ability of the Group to continue as a going concern.

Key audit matters

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

Materiality

- Overall Group materiality: £75,000,000 (2020: Not applicable) based on a materiality value that is an equivalent of 1.2% of Total Equity.
- Overall Company materiality: £75,000,000 (2020: £50,000,000) based on a materiality value that is an equivalent of 1.2% of Total Equity.
- Performance materiality: £56,250,000 (2020: Not applicable) (Group) and £56,250,000 (2020: £35,000,000) (Company).

The scope of our audit

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

Key audit matters

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

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

Valuation of insurance contract liabilities - Methodology and Assumptions to derive the Limited Price Indexation (LPI) and Impact of COVID-19, which were key audit matters last year, are no longer included because of our updated risk assessment. Management had introduced a new methodology in respect of LPI in the prior year, in the current year this has remained consistent and we have concluded that the risk of material misstatement with regards to the methodology and assumptions used to derive the LPI has reduced. In relation to the impact of COVID-19, although we consider the ongoing impact of the pandemic where relevant throughout our audit, we do not consider this to be a separate key audit matter in the current period. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities - Longevity Methodology and Assumptions (Group and Parent)	
As disclosed in note E.2 Reinsurance assets/liabilities and E.3 Insurance contract liabilities	The procedures to assess the appropriateness of the longevity assumptions used in the valuation of insurance contract liabilities includes the following:
Annuitant mortality and specifically longevity improvement is inherently uncertain and continues to be an area of judgement. The potential impact of the ongoing COVID-19 pandemic on longevity also involves significant expert judgement.	• Understood and tested the governance process in place to determine the longevity assumptions;
Management utilises the Group's own historic experience and available market data in the calculation of the appropriate assumptions. For the rate of mortality improvement, this includes the latest model and datasets from the Continuous Mortality Investigation (CMI) bureau, CMI 2020.	• Assessed the appropriateness of expert judgements used in the development of the mortality assumptions. For example, the derivation of the mortality assumptions, appropriateness of 2020 data, the selection and parameterisation of the CMI model including the calibration of parameters (e.g. smoothing parameter, long-term rate) and choice of base mortality table, and the determination of the prudential margin applied;
Whilst the Group manages the extent of its exposure to longevity risk through reinsurance, we consider the longevity assumptions underpinning insurance contract liabilities to be a key audit matter, especially given the mono-line nature of the Group's insurance business.	• Compared the longevity assumptions selected by the Group against those used by their peers; • Considered management's assessment of the potential impact of the COVID-19 pandemic on longevity assumptions; and • Assessed the disclosure of the longevity assumptions and the associated financial impact on the liabilities arising from changes in these assumptions over 2021. Based on the audit procedures performed and evidence obtained, we consider the longevity assumptions used in the valuation of Insurance contract liabilities to be appropriate.

Independent auditors' report to the members of Rothesay Life Plc

continued

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities - Credit Default Risk Methodology and Assumptions (Group and Parent)	
As disclosed in note E.3 Insurance contract liabilities.	The procedures to assess the appropriateness of the credit default assumptions used in the valuation of insurance contract liabilities included the following:
The Group has significant holdings in complex and illiquid investments. The deduction from the valuation rate of interest for credit default risk for these assets is judgemental and is generally lower than the corresponding credit default risk deduction on a typical unsecured credit portfolio.	• Assessed the methodologies used to derive the assumptions (including prudential margin) for both liquid and lliquid asset classes (including new asset classes) with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience;
This reflects the Group's view of the security held against the asset class which in itself is an area of judgement. The challenging economic environment caused by the COVID-19 pandemic has increased the uncertainty in relation to the credit default assumptions made.	• Tested controls performed by management over the approval and implementation of credit default assumptions (to the extent available);
For 2021 year end, adjustments have been made to the methodology and calibrations for both the liquid and illiquid asset classes to reflect the most up to date information available. There has also been the introduction of a new illiquid asset class, for which a credit default methodology has been determined.	• Validated significant assumptions used by management against market observable data (to the extent available and relevant) and our experience of market practices; • Compared the assumptions selected against those adopted by peers (to the extent available); • Tested the analysis of the movement in credit default risk assumption prepared by management for each asset class based on current market data and developments in the asset portfolio; and • Assessed the disclosure of the credit default risk assumptions and the associated financial impact on the liabilities from changes in these assumptions over 2021. Based on the audit procedures performed and evidence obtained we consider the methodology and assumptions for Credit Default used in the valuation of Insurance contract liabilities to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Valuation of investments classified as Level 3 under IFRS 13 (Group and Parent)	
As disclosed in notes D.2 Financial Investments, D.3 Derivatives, and D.7 Payables and financial liabilities.	The procedures to assess the appropriateness of the valuation of investments classified as Level 3 included the following:
Financial investments classified as Level 3 under the IFRS 13 fair value hierarchy is a material balance and comprise investments in Loans secured on property which include commercial real estate loans, loans secured on ground rents, Dutch residential mortgages (DRM), investments in Equity release mortgages (ERM), and LPI derivatives.	• Understood and validated the design adequacy and operating effectiveness of management's controls, including the monthly price verification process and controls over the accuracy of significant data inputs;
The ERM portfolio has continued to increase significantly in the current year following the acquisition of two new ERM backbook portfolios as well as continued new originations.	• Reviewed management's methodology and assumptions, including yield curves, discounted cash flows, property growth rates, longevity assumptions and liquidity premiums relevant to each asset class; • Understood the valuation models used by management and obtained evidence to support the model's operation is in line with methodology;
The valuations of Level 3 investments are typically based on either inputs into a valuation model or observable prices for proxy positions. This is inherently complex and requires the use of significant management judgement.	• Engaged our relevant experts to assess the appropriateness of management's methodology and internal credit rating methodology; • Independently revalued a sample of investments, including revaluation of the ERM portfolio at year end using an independent model; • Tested significant inputs into the valuation of Level 3 financial investments to external sources, where possible. This included consideration of possible external factors on these inputs such as those related to climate change or further disruption caused by the COVID 19 pandemic; • Considered the appropriateness of the spreads that represent the unobservable input to the valuation of the LPI derivative portfolio; and • Assessed the adequacy of disclosures in the financial statements. Based on the procedures performed and evidence obtained, we consider the valuation of Level 3 financial investments to be appropriate.

Independent auditors' report to the members of Rothesay Life Plc

continued

How we tailored the audit scope

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

The Group consists of 6 subsidiary companies and the parent Company, Rothesay Life Plc. Of the companies within the Group, the most significant component is the Company, which conducts all of the insurance business of the Group. PwC UK is the Group and Company auditors for components requiring statutory audits.

Based on the output of our risk assessment, along with our understanding of the Group structure, we performed full scope audit over the Company.

We have identified the following components where specific account balances were considered significant in relation to the Group, and scoped our audit to include detailed testing of those account balances: LT Mortgage Financing Limited, Rothesay MA No.1 Limited, and Rothesay MA No.3 Limited.

We completed review procedures over the other components not subject to full scope audits.

Materiality

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

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

	Financial statements - Group	Financial statements - Company
Overall materiality	• £75,000,000 (2020: Not applicable).	• £75,000,000 (2020: £50,000,000).
How we determined it	• a materiality value that is an equivalent of 1.2% of Total Equity	• a materiality value that is an equivalent of 1.2% of Total Equity
Rationale for benchmark applied	• We determine a materiality value that reflects the context of business performance and benchmarks which represent the key performance indicators considered important to the users of the financial statements. Based on the benchmarks used in the financial statements, we consider Total Equity to be the most appropriate benchmark as it represents the residual interest that can be ascribed to shareholders after policyholder assets and corresponding liabilities have been accounted for and the financial strength of the Group for the holders of listed debt issued. We have presented the materiality value as a percentage of Total Equity, but have also compared the materiality value against other relevant benchmarks, such as total assets, total revenue and profit before tax, to ensure the materiality selected was appropriate for our audit.	• We determine a materiality value for the Company using the same rationale as for the benchmark applied to the Group financial statements.

The range of materiality allocated across components was between £17,476,000 and £75,000,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £56,250,000 (2020: Not applicable) for the Group financial statements and £56,250,000 (2020: £35,000,000) for the Company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £3,750,000 (Group audit) (2020: Not applicable) and £3,750,000 (Company audit) (2020: £2,500,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- 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;
- considering 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;
- considering 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 Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

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

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

Independent auditors' report to the members of Rothesay Life Plc

continued

Reporting on other information

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

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

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

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

Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- Discussions with the Board, management, Internal Audit, senior management involved in the Risk and Compliance functions and the Group's legal function, including consideration of known or suspected instance of non-compliance with laws and regulation and fraud;
- Assessment of any matters reported on the Group's whistleblowing register and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Risk Committee and attending all Audit Committees;
- Reviewing data regarding policyholder complaints, the Group's register of litigation and claims, Internal Audit reports, and Compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of life insurance contract liabilities, in particular longevity, credit default risk assumptions; the valuation of investments classified as Level 3 under IFRS 13 described in the related key audit matters; as well as considering whether there are indications of management bias;
- Identifying risk criteria relating to the posting of journals that is susceptible to fraud and analysing the entire population of journals to assess those that meet this criteria; and
- Designing audit procedures that incorporated unpredictability around the nature, timing or extent of our testing to material and immaterial financial statement line items, as well as validating the accuracy of member data from outsourced service providers to underlying evidence.

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

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

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

Independent auditors' report to the members of Rothesay Life Plc

continued

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

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

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the members on 26 February 2007 to audit the financial statements for the year ended 30 November 2007 and subsequent financial periods. The period of total uninterrupted engagement is 15 years, covering the years ended 30 November 2007 to 31 December 2021.

Other matter

The Group financial statements for the year ended 31 December 2020, forming the corresponding figures of the Group financial statements for the year ended 31 December 2021, are unaudited.

Sue Morling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
11 February 2022

Section

3

Financial statements

The financial statements set out the consolidated results for Rothesay Life Plc and its subsidiaries for the year ended 31 December 2021.

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Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £m	2020[1] £m
Income			
Gross premiums written	B.1	**3,205**	7,281
Premiums ceded to reinsurers		**(1,636)**	(1,412)
Net premiums written		**1,569**	5,869
Investment return	B.2	**48**	4,648
Total revenue		**1,617**	10,517
Expenses			
Policyholder claims		**(2,901)**	(2,798)
Less: reinsurance recoveries		**1,521**	1,307
Change in insurance contract liabilities	E.3	**1,216**	(7,315)
Change in the reinsurers' share of insurance contract liabilities	E.1	**(198)**	83
Net claims and change in insurance liabilities		**(362)**	(8,723)
Acquisition and administration expenses	B.3	**(221)**	(201)
Finance costs	B.4	**(116)**	(119)
Total expenses		**(669)**	(9,043)
Profit before tax		**918**	1,474
Income tax expense	B.8	**(176)**	(277)
Profit for the financial year		**742**	1,197

	Note	2021 £m	2020 £m
Profit for the year		**742**	1,197
Other comprehensive income			
Items that are or may be reclassified to profit or loss:		–	–
Cash flow hedges:			
Fair value gains during the year	C.3	**1**	–
Total comprehensive income for the year		**743**	1,197

All income and expenses are related to continuing operations.

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

1 The company produced standalone financial statements as at 31 December 2020. The consolidated comparatives are therefore unaudited.

Consolidated statement of financial position

AS AT 31 DECEMBER 2021

	Note	**2021 £m**	2020[1] £m
Assets			
Property, plant and equipment	D.1	**11**	7
Lease - right of use asset	I.5	**30**	34
Financial investments	D.2	**83,845**	93,712
Reinsurance assets	E.1	**641**	616
Accrued interest and prepayments	D.4	**641**	663
Receivables	D.5	**511**	969
Cash and cash equivalents	D.6	**332**	274
Total assets		**86,011**	96,275
Equity and liabilities			
Equity			
Share capital	C.1	**510**	510
Tier 1 notes	C.2	**793**	347
Share premium	C.3	**1,953**	1,953
Hedging reserve	C.3	**1**	–
Retained earnings	C.3	**2,882**	2,143
Total equity		**6,139**	4,953
Liabilities			
Reinsurance liabilities	E.1	**1,217**	993
Insurance contract liabilities	E.3	**54,030**	55,247
Payables and financial investment liabilities	D.7	**22,784**	33,546
Leasehold liabilities	I.5	**42**	40
Borrowings	D.8	**1,725**	1,426
Deferred tax liabilities	G.1	**5**	–
Accruals and deferred income		**69**	70
Total liabilities		**79,872**	91,322
Total equity and liabilities		**86,011**	96,275

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

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

Addy Loudiadis
Chief Executive Officer
11 February 2022

Company number 06127279

1 The Company produced standalone financial statements as at 31 December 2020. The consolidated comparatives are therefore unaudited.

Consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital £m	Share premium £m	Tier 1 notes £m	Hedging reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2021	**510**	**1,953**	**347**	**–**	**2,143**	**4,953**
Prior year adjustment	**–**	**–**	**–**	**–**	**(3)**	**(3)**
Issuance of RT1 notes	**–**	**–**	**446**	**–**	**–**	**446**
Other comprehensive income for the year	**–**	**–**	**–**	**1**	**–**	**1**
Profit for the financial year	**–**	**–**	**–**	**–**	**742**	**742**
As at 31 December 2021	**510**	**1,953**	**793**	**1**	**2,882**	**6,139**

FOR THE YEAR ENDED 31 DECEMBER 2020

Unaudited	Share capital £m	Share premium £m	Tier 1 notes £m	Hedging reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2020	510	1,953	347	–	946	3,756
Profit for the financial year	–	–	–	–	1,197	1,197
As at 31 December 2020	510	1,953	347	–	2,143	4,953

Consolidated cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	**2021 £m**	2020 unaudited £m
Cash flows from operating activities			
Profit for the financial year		**742**	1,197
Adjustments for non-cash movements in net profit for the year			
Prior year adjustment		(3)	–
Depreciation	D.1	**1**	2
Leasehold depreciation	I.5	**4**	3
Amortisation of debt costs	B.4	**9**	3
Financing charge on leasehold	I.5	**1**	1
Interest income	B.2	**(1,445)**	(1,400)
Interest expense	B.4	**105**	115
Income tax expense	B.8	**139**	230
Hedging reserve	C.3	**1**	–
Net decrease /(increase) in operational assets			
Financial investments	D.2	**9,867**	(19,971)
Reinsurance asset	E.1	**(25)**	(228)
Receivables	D.5	**459**	(85)
Prepayment	D.4	**6**	126
Net (decrease)/increase in operational liabilities			
Insurance contract liabilities	E.1	**(1,216)**	7,315
Reinsurance liabilities	E.1	**224**	145
Financial investment liabilities	D.7	**(10,152)**	10,632
Other payables	D.7	**(520)**	969
Deferred tax	G.1	**5**	(1)
Accruals and deferred income		**(8)**	(7)
Net cash flows used in operating activities		**(1,806)**	(954)
Interest paid		**(98)**	(115)
Interest received		**1,460**	1,366
Tax paid		**(229)**	(295)
Net cash flows (used in)/generated from operating activities		**(673)**	2
Cash flows used in financing activities			
Repayment of borrowings	D.8	**–**	(100)
Proceeds from issuance of debt (net of issuance costs)	D.8	**290**	96
Proceeds from issuance of Tier 1 notes (net of issuance costs)	C.2	**446**	–
Net cash flows generated from/(used in) financing activities		**736**	(4)
Net cash outflows from investing activities			
Acquisition of property, plant and equipment	D.1	**(5)**	(1)
Cash flow on leasehold	I.5	**–**	–
Net cash outflows used in investing activities		**(5)**	(1)
Net increase/(decrease) in cash and cash equivalents		**58**	(3)
Cash and cash equivalents at 1 January	D.6	**274**	277
Cash and cash equivalents at 31 December	D.6	**332**	274

Company statement of financial position

AS AT 31 DECEMBER 2021

	Note	**2021 £m**	2020 £m
Assets			
Investment in subsidiaries	H.2	**13**	13
Property, plant and equipment	D.1	**11**	7
Lease - right of use asset	I.5	**30**	34
Financial investments	D.2	**83,845**	93,712
Reinsurance assets	E.1	**641**	616
Accrued interest and prepayments	D.4	**641**	663
Receivables	D.5	**785**	1,124
Cash and cash equivalents	D.6	**159**	186
Total assets		**86,125**	96,355
Equity and liabilities			
Equity			
Share capital	C.1	**510**	510
Tier 1 notes	C.2	**793**	347
Hedging reserve	C.3	**1**	–
Share premium	C.3	**1,953**	1,953
Retained earnings	C.3	**2,882**	2,140
Total equity		**6,139**	4,950
Liabilities			
Reinsurance liabilities	E.1	**1,217**	993
Insurance contract liabilities	E.2	**54,030**	55,247
Payables and financial liabilities	D.7	**22,784**	33,547
Leasehold liabilities	I.5	**42**	40
Borrowings	D.8	**1,725**	1,426
Deferred tax liabilities	G.1	**119**	82
Accruals and deferred income		**69**	70
Total liabilities		**79,986**	91,405
Total equity and liabilities		**86,125**	96,355

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

The profit for the financial year of the Company was £742m (2020: profit of £1,194m). As permitted by Section 408 of the Companies Act 2006, the Company's statement of comprehensive income has not been included in these financial statements.

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

Addy Loudiadis
Chief Executive Officer
11 February 2022

Company number 06127279

Company statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital £m	Share premium £m	Tier 1 notes £m	Hedging reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2021	**510**	**1,953**	**347**	**–**	**2,140**	**4,950**
Profit for the financial year	**–**	**–**	**–**	**–**	**742**	**742**
Tier 1 note issuance	**–**	**–**	**446**	**–**	**–**	**446**
Other comprehensive income for the year	**–**	**–**	**–**	**1**	**–**	**1**
As at 31 December 2021	**510**	**1,953**	**793**	**1**	**2,882**	**6,139**

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital £m	Share premium £m	Tier 1 notes £m	Hedging reserve £m	Retained earnings £m	Total equity £m
As at 1 January 2020	510	1,953	347	–	946	3,756
Profit for the financial year	–	–	–	–	1,194	1,194
As at 31 December 2020	510	1,953	347	–	2,140	4,950

Company cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £m	2020 £m
Cash flows from operating activities			
Profit for the financial year		**742**	1,194
Adjustments for non-cash movements in net profit for the year			
Depreciation	D.1	**1**	2
Leasehold depreciation	I.5	**4**	3
Amortisation of debt costs	B.4	**9**	3
Financing charge on leasehold	I.5	**1**	1
Interest income	B.2	**(1,445)**	(1,400)
Interest expense	B.4	**105**	115
Income tax expense	B.8	**139**	230
Hedging reserve		**1**	–
Net derease/(increase) in operational assets			
Financial investments	D.2	**9,867**	(19,971)
Reinsurance asset	E.1	**(25)**	(228)
Receivables	D.5	**339**	(177)
Prepayment	D.4	**6**	126
Net (decrease)/increase in operational liabilities			
Insurance contract liabilities	E.1	**(1,216)**	7,315
Reinsurance liabilities	E.1	**224**	145
Financial investment liabilities	D.7	**(10,152)**	10,632
Other payables	D.7	**(520)**	969
Deferred tax	G.1	**37**	51
Accruals and deferred income		**(8)**	(7)
Net cash flows used in operating activities		**(1,891)**	(997)
Interest paid		**(98)**	(115)
Interest received		**1,460**	1,366
Tax paid		**(229)**	(295)
Cash flows used in operating activities		**(758)**	(41)
Cash flows used in financing activities			
Repayment of borrowings	D.8	**–**	(100)
Proceeds from issuance of debt (net of issuance costs)	D.8	**290**	96
Proceeds from issuance of Tier 1 notes (net of issuance costs)	C.2	**446**	–
Net cash flows generated from/(used in) financing activities		**736**	(4)
Net cash outflows from investing activities			
Acquisition of property, plant and equipment	D.1	**(5)**	(1)
Cash flow on leasehold	I.5	**–**	–
Investment in subsidiaries	H.2	**–**	(2)
Net cash outflows from investing activities		**(5)**	(3)
Net decrease in cash and cash equivalents		**(27)**	(48)
Cash and cash equivalents at 1 January		**186**	234
Cash and cash equivalents at 31 December	D.6	**159**	186

Notes to the financial statements

Note A – Significant accounting policies

A.1 Basis of preparation and consolidation

The consolidated financial statements of Rothesay and those of the Company have been prepared and approved by the Directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted in the United Kingdom. The accounting policies have been applied consistently. The financial statements have been prepared on a going concern basis.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Rothesay transitioned to UK-adopted International Accounting Standards in its Consolidated and Company financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the financial year reported as a result of the change in framework.

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

Consolidated financial statements have been prepared for the year ending 31 December 2021 to reflect the increasing materially of RLP's subsidiaries. As at 31 December 2020 the Company produced standalone financial statements and therefore the consolidated comparatives included in these consolidated financial statements have not been audited.

The consolidated and separate financial statements of the Company are presented in sterling (£) rounded to the nearest million (£m) except where otherwise stated. The separate Company statement of financial position is presented on page 64.

Rothesay presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement more than 12 months after the year end is presented in the notes.

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

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

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

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

Notes to the financial statements

continued

Note A – Significant accounting policies (continued)

A.1 Basis of preparation and consolidation (continued)

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

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

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

During the preparation of the consolidated financial statements, Rothesay selects accounting policies and makes estimates and assumptions that impact on the items reported and their presentation. The Audit Committee reviews the reasonableness of these judgements and assumptions as well as the appropriateness of the accounting policies applied.

Judgements are decisions which management has made in the process of applying Rothesay's accounting policies. Matters of significant judgement are considered to be:

- The assessment of whether Rothesay controls underlying entities and investments (see note H.1).
- Assessment of the significance of insurance risk transferred to Rothesay in determining whether a contract should be accounted for as an insurance or investment contract (see note A.2).

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

- Fair value of financial investments where quoted market prices are not available (see note D.2).
- Measurement of net insurance contract liabilities (see notes E.2 and E.3).

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

- the assumptions made and the uncertainties around these;
- how sensitive the assets and liabilities are to these assumptions;
- expected resolution of the uncertainty and the range of possible outcomes for the financial year ending 31 December 2022; and
- explanation of any changes made to past assumptions if the uncertainty is unresolved.

A.2 Contract classification

Using judgement Rothesay has classified all of its policyholder contracts as insurance contracts in accordance with IFRS 4 Insurance contracts. Insurance contracts are contracts which transfer significant insurance risk to the insurer at the inception of the contract.

As permitted by IFRS 4 Insurance contracts, the liabilities of Rothesay's insurance contracts are accounted for using generally accepted accounting principles within the UK industry. Rothesay applies the modified historic statutory solvency basis (MSSB) of reporting as set out in the revised Statement of Recommended Practice (SORP) issued by the Association of British Insurers (ABI) in November 2005 (amended in December 2006). The SORP was withdrawn with effect for accounting periods beginning on or after 1 January 2015 but Rothesay continues to apply the principles.

Note A – Significant accounting policies (continued)

A.3 Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at rates of exchange ruling on the date the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the financial statement date. Gains and losses on exchange are recognised in operating expenses.

A.4 Adoption of new or amended standards

Rothesay has considered the following new standards and changes to existing standards which are relevant to Rothesay's operations, and became effective for financial years beginning on or after 1 January 2021. These amendments have all been endorsed by the UK.

Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions, Extension of the practical expedient:

As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Rothesay has not taken the benefit of rent concessions and therefore this amendment is not relevant to Rothesay.

Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark reform - Phase 2:

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform. Rothesay does not have any hedging relationships affected by IBOR reform and therefore this amendment is not relevant.

Amendments to IFRS 4 insurance contracts - deferral of IFRS 9 (issued on 25 June 2020):

These amendments defer the date of application of IFRS 17 by two years to 1 January 2023 and change the fixed date of the temporary exemption in IFRS 4 from applying IFRS 9, Financial instruments until 1 January 2023. Rothesay continues to take the exemption.

Amendments to UK and Republic of Ireland accounting standards UK exit from the European Union:

In January 2020 the UK exited the European Union. These amendments reflect the changes required to UK company law to ensure that it continues to operate effectively.

The following standards have not yet been endorsed and are effective for annual periods on or after 1 January 2022:

Amendments to IFRS 3, 'Business combinations':

The amendment updates a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendment is expected to have no impact on Rothesay.

Amendments to IAS 16, 'Property, plant and equipment':

The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the assets of its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. The amendment is expected to have no impact on Rothesay.

Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets':

The amendment specifies which costs a company includes when assessing whether a contract will be lossmaking. The amendment is expected to have no impact on Rothesay.

Annual improvements:

Make minor amendments to IFRS 1, 'First-time Adoption of IFRS ', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the illustrative Examples accompanying IFRS 16, 'Leases'.

The following standards have not yet been endorsed and are effective for annual periods on or after 1 January 2023:

Notes to the financial statements

continued

Note A – Significant accounting policies (continued)

A.4 Adoption of new or amended standards (continued)

IFRS 17, 'Insurance contracts', as amended in June 2020:

IFRS 17, the accounting standard for insurance contracts, is due to be implemented on 1 January 2023. The standard will have a significant impact on the way Rothesay's results are reported because the standard rebuilds performance measurement in areas ranging from a new definition of insurance revenue to the elimination of upfront profits and spreading of profit across the lifetime of the contract. As a result, IFRS profits that have been declared in the past (and up to 31 December 2022) will be recalculated and the opening balance sheet adjusted accordingly.

During 2021 the IFRS 17 project team has continued to make progress. We have largely determined the way in which we will interpret the standard and modelling work is now underway. During 2022, we aim to finalise the IFRS 17 balance sheet as at 31 December 2021 so that we can begin to track IFRS 17 performance in parallel with current IFRS standards.

The IFRS 17 project is overseen by the Audit Committee.

Rothesay has taken the deferral option in relation to IFRS 9 'Financial instruments' and will adopt the standard on the effective date of the new insurance contract standard. However, IFRS 9 is expected to have relatively little impact on Rothesay as assets are already fair valued.

Amendments to IAS 1, 'Presentation of financial statements', on classification of liabilities:

These narrow scope amendments to IAS1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. The amendment is expected to have no impact on Rothesay.

Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8:

The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. These amendments are not expected to materially impact Rothesay's disclosures.

Amendments to IAS 12- Deferred tax related to assets and liabilities arising from a single transaction:

These amendments require companies to recognise deferred tax on transactions that on initial recognition give rise to equal amounts of taxable and deductible temporary differences. None of these amendments are expected to impact Rothesay.

Note B – Income statement notes

B.1 Segmental analysis

Segmental information is presented on the same basis as internal financial information used by Rothesay to evaluate operating performance. An operating segment is a component of Rothesay that engages in business activities from which it earns revenues and incurs expenses. Minor operating segments are combined to derive Rothesay reportable segments in accordance with the requirements of IFRS 8.

Rothesay writes both single and regular premium business. Single (single payment of premium which covers the life of the policy) and regular premiums (payments of premium made regularly over the duration of the policy) are recognised when they fall due.

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

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

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

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

B.2 Investment return

Investment 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.

Dividends on money market securities held in collective investment schemes are included as investment income on the date the units are created. Interest is accounted for on an accruals basis.

Realised gains and losses on investments carried at fair value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the fair value of investments held at the statement of financial position date of each financial year and their purchase price or previous financial date.

Investment return includes fair value gains and losses. Interest is included on an accrual basis.

	2021 £m	2020 unaudited £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

Notes to the financial statements

continued

Note B – Income statement notes (continued)

B.2 Investment return (continued)

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.

B.3 Acquisition and administration expenses

The costs of acquiring new business are expensed during the financial year in which the premium is written and the costs incurred.

Acquisition and administration expenses can be broken down as follows:

	2021 £m	2020 unaudited £m
Acquisition costs	**137**	114
Administration expenses - recurring	**59**	53
Administration expenses – project and other one-off expenses	**25**	34
Total operating expense	**221**	201

Acquisition costs increased as a result of the growth in the business and the increase in expenses relating to share-based payments (see note I.2).

The following items have been included in operating expenses:

	2021 £m	2020 unaudited £m
Depreciation	**2**	2
Operating lease rental expense for office premises	**5**	4
	7	6

Project and other one-off expenses include reinsurance fees and charitable contributions. Projects include the development of Rothesay's IT platform, the costs involved with the Prudential Part VII transfer and development activity by our third party administrators.

Note B – Income statement notes (continued)

B.4 Finance costs

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

	2021 £m	2020 unaudited £m
Interest payable on collateral	**1**	3
Interest payable on collateralised agreements and financing	**1**	8
Total interest payable on collateral and collateralised agreements	**2**	11
Interest payable on borrowings from related parties	**19**	21
Interest payable on third party borrowings	**94**	86
Financing charge on leasehold asset	**1**	1
Total borrowing costs	**114**	108
Net finance costs	**116**	119

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

Interest expense on the RT1 notes is included in interest payable on third party borrowings.

Notes to the financial statements
continued

Note B – Income statement notes (continued)
B.5 Employee information
All persons involved in the Company's operations are employed by wider group undertakings, Rothesay Pensions Management Limited (RPML) and Rothesay Asset Management US. The charges made by RPML and Rothesay Asset Management US for the services provided (personnel and other) to the Company are included in the management fees charged by group undertakings. Details of the employees of the Rothesay Limited Group are as follows:

	2021 No.	2020 unaudited
Average number of staff employed during the year	**332**	279
Employees by department at year end		
Management	**25**	25
New business origination	**25**	17
Investments	**50**	46
Technology	**72**	57
Finance, legal and HR	**67**	58
Operations and project management	**77**	65
Risk and Internal Audit	**43**	37
	359	305

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

	2021 £m	2020 unaudited £m
Wages and salaries	**117**	85
Social security costs	**17**	13
Other pension costs	**3**	3
Total employee benefits expense	**137**	101

The key management personnel who have the authority and responsibility for planning, directing and controlling the activities of Rothesay include its Directors. Further details of key management personnel transactions are included in note I.3.

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

	2021 £m	2020 unaudited £m
Directors' remuneration		
Aggregate emoluments	**4**	4
Company pension contributions to money purchase schemes	**–**	–
Total Directors' remuneration	**4**	4
Highest paid Director		
Total amount of emoluments	**1**	1
Company pension contributions to money purchase schemes	**–**	–
Total highest paid Director	**1**	1

Note B – Income statement notes (continued)

B.5 Employee information (continued)

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

During 2021, Directors received no emoluments for non-qualifying services which are required to be disclosed. Three Directors have been granted shares in Rothesay Limited in respect of long-term incentive schemes. No Directors have exercised options during the year.

B.6 Pension contributions

Rothesay operates a defined contribution pension scheme, sponsored by Rothesay Pensions Management Limited and contributions to the scheme are charged to the consolidated statement of comprehensive income as they accrue.

The amount charged for the financial year was £3m (2020: £3m). There were no outstanding contributions as at 31 December 2021 (2020: £nil).

B.7 Auditors' remuneration

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

	2021 £000s	2020 unaudited £000s
Remuneration receivable by the Company's auditors for the audit of the consolidated and Company financial statements	**1,397**	1,323
Remuneration receivable by the Company's auditors for the audit of the financial statements of the Company's subsidiaries	**99**	94
Total audit	**1,496**	1,417
Required by regulation	**228**	145
Audit-related assurance services	**217**	198
Other assurance services	**119**	222
Non-audit services	**–**	40
Total fees	**2,060**	2,022

Other assurance services provided in 2021 relate to work associated with the issuance of the RT1 notes. These are in compliance with applicable independence rules and Rothesay considered that the external auditor was best placed to provide these services because of their expertise and their understanding of Rothesay.

Notes to the financial statements
continued

Note B – Income statement notes (continued)
B.8 Income tax expense

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

The major components of income tax expense for the years ended 31 December 2021 and 31 December 2020 are:

	2021 £m	2020 unaudited £m
Current income tax:		
UK corporation tax	**171**	279
Prior year adjustment	**–**	(1)
Total current income tax	**171**	278
Deferred tax:		
Origination and reversal of temporary differences	**5**	(1)
Total deferred tax	**5**	(1)
Total tax expense in the consolidated statement of comprehensive income	**176**	277

The tax expense in the consolidated statement of comprehensive income for the financial year and the standard rate of corporation tax in the UK of 19% (2020: 19%) is reconciled below:

	2021 £m	2020 unaudited £m
Profit on ordinary activities before taxation	**918**	1,474
Tax calculated at UK standard rate of corporation tax of 19% (2020: 19%)	**174**	280
Prior year adjustment	**–**	(1)
Other adjustments	**38**	–
Disallowable expenditure	**(38)**	–
Group relief claimed/surrendered for nil consideration	**2**	(2)
Total tax expense reported in the consolidated statement of comprehensive income	**176**	277

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

Note C – Equity

C.1 Share capital

In preparation for the issuance of the new RT1 notes (see note C.2), on 29 September 2021, each ordinary share of £1 was re-designated as an A ordinary share of £1 each.

At 31 December 2021and 31 December 2020 share capital comprised:

	2021		2020	
	No.	**£m**	No.	£m
Authorised share capital (ordinary shares of £1 each)	**510,528,696**	**510**	510,528,696	510

All of the shares in issuance are A ordinary shares.

C.2 Restricted Tier 1 notes -sterling

Under IFRS the sterling-denominated Restricted Tier 1 (RT1) notes meet the definition of equity and are therefore recognised as such. The USD-denominated RT1 notes do not meet this definition and are recognised as borrowings (see note D.8).

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

				Carrying amount	
Notional amount	**Issue date**	**Callable at par at the option of the Group from**	**Coupon**	**2021 £m**	2020 £m
Loan notes issued through public debt markets					
£350m	5 September 2018	5 September 2028	6.875%	**347**	347
£450m	13 October 2021	13 October 2031	5%	**446**	–
				793	347

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

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

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

Notes to the financial statements

continued

Note C – Equity (continued)

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

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

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

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

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

then either:

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

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

C.3 Share premium account and reserves

	Share premium £m	Hedging reserve £m	Retained earnings £m
1 January 2021	**1,953**	**–**	**2,143**
Prior year adjustment	**–**	**–**	**(3)**
Other comprehensive income for the year	**–**	**1**	**–**
Profit for the financial year	**–**	**–**	**742**
31 December 2021	**1,953**	**1**	**2,882**

Unaudited	Share premium £m	Hedging reserve £m	Retained earnings £m
1 January 2020	1,953	–	946
Profit for the financial year	–	–	1,197
31 December 2020	1,953	–	2,143

Hedging reserve

A foreign currency exposure arises on the RT1 notes issued in US dollars and the associated coupon payments (see note D.8). The risk arises from the fluctuation in exchange rates, which would cause volatility in the biannual coupon payments and the principal repayment at the call date.

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

We have not provided additional disclosures in relation to the cash-flow hedges as the fair value of the hedges was only £7m as at 31 December 2021 which is not material in the context of Rothesay's total derivative position (see note D.2).

C.4 Dividends on ordinary shares

The Directors have recommended no payment of interim dividends during the year ended 31 December 2021 (2020: £nil). The Directors have recommended no final ordinary dividend in respect of the year ended 31 December 2021 (2020: £nil).

Note D – Financial assets and liabilities

D.1 Property, plant and equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis over the useful life of the following classes of assets:

- *Computer equipment: 3 years*
- *Furniture and fittings: 5 years*
- *Software: 10 years*

Group and Company unaudited	Software £m	Computer equipment £m	Furniture and fittings £m	Total £m
Cost				
As at 1 January 2021	–	–	9	9
Additions	4	–	1	5
As at 31 December 2021	4	–	10	14
Accumulated depreciation				
As at 1 January 2021	–	–	2	2
Charge for the year	–	–	1	1
As at 31 December 2021	–	–	3	3
Net book value				
As at 31 December 2021	4	–	7	11
As at 31 December 2020	–	–	7	7

During 2021, Rothesay capitalised expenses incurred in relation to the development of the Group's IT platform in accordance with IAS 38.

D.2 Financial investments

Financial investments are classified, at initial recognition, as financial investments at fair value through profit or loss, with the exception of receivables, cash and accrued interest, which are carried at amortised cost. Fair value is considered consistent with the risk management of the portfolio.

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

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

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

Notes to the financial statements

continued

Note D – Financial assets and liabilities (continued)

D.2 Financial investments (continued)

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

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

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

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

Hedge accounting

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

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

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

Note D – Financial assets and liabilities (continued)
D.2 Financial investments (continued)

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

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

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

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

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

	2021 £m	2020 unaudited £m
Financial investments carried at fair value through profit and loss, designated at initial recognition	**83,845**	93,712

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

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

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

Notes to the financial statements
continued

Note D – Financial assets and liabilities (continued)
D.2 Financial investments (continued)
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. In determining fair values, where possible, we have used observable market prices. Where assets have been valued using techniques with unobservable inputs, we have considered whether adjustments need to be made. For example, in valuing loans secured on commercial real estate, we have adjusted underlying property values on a property-by-property basis. Sensitivities to the value of the inputs can be found at the end of this note.

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

The following tables show an analysis of financial investments recorded at fair value by level of the fair value hierarchy for 2021 and 2020 (please refer to note D.7 for financial liabilities):

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

Group and Company 31 December 2020 unaudited	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Collective investment schemes	4,286	–	–	4,286
Government sub sovereign and agency obligations	8,900	9,971	–	18,871
Corporate bonds and other corporate debt	–	25,986	1,186	27,172
Derivative assets	–	27,145	3,555	30,700
Collateralised agreements and financing	–	1,727	–	1,727
Loans secured on property	–	–	6,523	6,523
Equity release mortgages	–	–	4,222	4,222
Certificate of deposits	–	211	–	211
Total financial investments at fair value	13,186	65,040	15,486	93,712

Rothesay discloses offsetting derivative asset and derivative liability contracts separately in line with IAS 32 requirements. However, the movement in the value of derivative assets as a result of changes in economic conditions is offset by the movement in the value of derivative liabilities such that on a net basis the value of derivatives fell by £260m 2021.

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

Approximately 21% (2020: 17%) of the total financial assets recorded at fair value are valued based on estimates and recorded as Level 3 investments.

Note D – Financial assets and liabilities (continued)

D.2 Financial investments (continued)

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

Group and Company	Corporate debt £m	Loans secured on property £m	Derivative assets £m	Total £m
At 1 January 2021	**1,186**	**6,523**	**3,555**	**11,264**
Total gains in the statement of comprehensive income:				
Unrealised (losses)/gains	**(42)**	**567**	**166**	**691**
Realised gains	**–**	**21**	**–**	**21**
Transfer out of Level 3	**(55)**	**–**	**–**	**(55)**
Net purchases/additions	**3**	**193**	**–**	**196**
At 31 December 2021	**1,092**	**7,304**	**3,721**	**12,117**

Unauditied				
At 1 January 2020	1,088	6,063	–	7,151
Total gains in the statement of comprehensive income:				
Unrealised gains/(losses)	33	(93)	–	(60)
Realised gains	–	12	–	12
Transfer into Level 3	90	–	3,555	3,645
Transfer out of Level 3	(47)	–	–	(47)
Net purchases/additions	22	541	–	563
At 31 December 2020	1,186	6,523	3,555	11,264

Please see note D.7 for details of Level 3 derivative liabilities.

Rothesay's policy is to determine the relevant categorisation of financial assets and liabilities at least annually and, where availability of inputs has changed, transfers will be made between levels. No financial assets were transferred from Level 2 to Level 3 during the year (2020: £3,645m). The limited price indexation (LPI) linked derivatives were moved into Level 3 from Level 2 in the second half of 2020 based on Rothesay's assessment that the significant internal inputs to the LPI pricing model were unobservable as a result of illiquidity in the LPI swap market. £55m of corporate debts were transferred from Level 3 to Level 2 in 2021 (2020: £47m).

The unrealised gains on Level 3 loans secured on property were mainly driven by the tightening in asset spreads and the increase in long-term inflation rates.

Notes to the financial statements

continued

Note D – Financial assets and liabilities (continued)

D.2 Financial investments (continued)

Equity release mortgages

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

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

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

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

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

Group and Company	2021 £m	2020 unaudited £m
Carrying amount at 1 January	**4,222**	2,669
Increase in respect of new business	**1,377**	1,444
Redemptions/repayments	**(280)**	(145)
Accrued interest for the financial year	**179**	126
Change in economic assumptions	**(168)**	128
Change in demographic assumptions	**(1)**	–
Closing balance at end of the year	**5,329**	4,222

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

Group and Company	2021 £m	2020 unaudited £m
Less than one year	**301**	249
One to five years	**1,117**	913
Over five years	**3,911**	3,060
Total	**5,329**	4,222

Note D – Financial assets and liabilities (continued)

D.2 Financial investments (continued)

Collateralised agreements

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

	2021		2020 unaudited	
	Asset £m	**Related liability £m**	Asset £m	Related liability £m
Government and agency obligations	**440**	**414**	1,102	894
Total collateralised agreements	**440**	**414**	1,102	894

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

The net exposure to certain OTC derivatives is collateralised through cash. As at 31 December 2021, the total cash collateral received was £1,537m (2020: £2,063m). Other OTC contracts are collateralised with fixed income securities which are not recognised on the balance sheet of Rothesay.

Notes to the financial statements

continued

Note D – Financial assets and liabilities (continued)

D.2 Financial investments (continued)

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

The following table shows the impact on the fair value (FV) of Level 3 instruments of using reasonably possible alternative assumptions by class of instrument. Changes are made in isolation so, for example, no change is made to property price inflation in the property price sensitivities. Since part of any spread movement is likely to be included in the derivation of the valuation rate of interest, changes in fair value of assets also impact liabilities. The following table also shows the potential impact on profit before tax (PBT) and equity of the same alternative assumptions, assuming that all other pricing inputs remain constant. In order to provide further information the impact on equity has been included for the first time in 2021 and therefore the 2020 comparative has been updated accordingly.

			2021			
Group and Company Impact on financial assets and PBT	**Main assumptions**	**Changes in assumptions**	**Current FV £m**	**(Decrease)/ increase in FV £m**	**(Decrease)/ increase in PBT £m**	**(Decrease)/ increase in equity £m**
Financial assets						
Corporate bonds and other corporate debt	Liquidity premium	+25bps	**1,092**	**(16)**	**(3)**	**(2)**
		-25bps	**1,092**	**17**	**3**	**2**
Loans secured on property	Liquidity premium	+25bps	**7,304**	**(310)**	**–**	**–**
		-25bps	**7,304**	**335**	**–**	**–**
Loans secured on property	Property prices	+10%	**7,304**	**19**	**28**	**23**
		-10%	**7,304**	**(37)**	**(63)**	**(51)**
Equity release mortgages	Liquidity premium	+25bps	**5,329**	**(161)**	**–**	**–**
		-25bps	**5,329**	**169**	**–**	**–**
Equity release mortgages	House prices	+10%	**5,329**	**84**	**84**	**68**
		-10%	**5,329**	**(107)**	**(108)**	**(88)**
Derivative assets	LPI bid-mid spread	+15bps	**3,721**	**6**	**6**	**5**
		-15bps	**3,721**	**(6)**	**(6)**	**(5)**
Financial liabilities						
Derivative liabilities	LPI bid-mid spread	+15bps	**4,035**	**158**	**158**	**128**
		-15bps	**4,035**	**(158)**	**(158)**	**(128)**
Collateralised financing agreements	Liquidity premium	+25bps	**213**	**13**	**13**	**11**
		-25bps	**213**	**(13)**	**(13)**	**(11)**

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

Group and Company Impact on financial assets and PBT	Main assumptions	Changes in assumptions	2020 unaudited Current FV £m	(Decrease)/ Increase in FV £m	(Decrease)/ Increase in PBT £m	(Decrease)/ Increase in Equity £m
Financial assets						
Corporate bonds and other corporate debt	Liquidity premium	+25bps	1,186	(21)	(3)	(3)
		-25bps	1,186	22	4	3
Loans secured on property	Liquidity premium	+25bps	6,523	(258)	–	–
		-25bps	6,523	280	–	–
Loans secured on property	Property prices	+10%	6,523	19	41	33
		-10%	6,523	(28)	(76)	(62)
Equity release mortgages	Liquidity premium	+25bps	4,222	(125)	–	–
		-25bps	4,222	131	–	–
Equity release mortgages	House prices	+10%	4,222	80	81	66
		-10%	4,222	(101)	(103)	(84)
Derivative assets	LPI bid-mid spread	+15bps	3,555	(39)	(39)	(32)
		-15bps	3,555	39	39	32
Financial liabilities						
Derivative liabilities	LPI bid-mid spread	+15bps	4,518	217	217	176
		-15bps	4,518	(217)	(217)	(176)
Collateralised financing agreements	Liquidity premium	+25bps	219	14	14	12
		-25bps	219	(14)	(14)	(12)

Notes to the financial statements

continued

Note D – Financial assets and liabilities (continued)

D.3 Derivatives

Rothesay uses derivative financial instruments as part of its risk management strategy and to hedge its solvency position. Objectives include managing exposure to market, foreign currency, inflation and interest rate risks on assets and liabilities (see also note F.2.2). The large movement in the fair value of assets and liabilities has been driven by the change in economic conditions over the year. The total net fair value of Rothesay's derivative assets and liabilities has moved by a smaller amount, from an asset of £341m as at 31 December 2020 to an asset of £81m as at 31 December 2021.

The following table shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts.

	2021			2020 unaudited		
Group and Company	**Assets £m**	**Liabilities £m**	**Notional amount £m**	Assets £m	Liabilities £m	Notional amount £m
Derivatives held for risk management						
Interest rate swap	**14,741**	**(15,006)**	**344,678**	21,769	(21,288)	393,911
Inflation swap	**3,729**	**(3,354)**	**69,076**	5,546	(6,042)	56,801
Currency swap	**1,660**	**(1,689)**	**96,920**	3,081	(2,741)	91,372
Credit derivative	**575**	**(602)**	**20,490**	143	(271)	18,939
Forwards	**64**	**(37)**	**3,773**	161	(17)	3,374
Total	**20,769**	**(20,688)**	**534,937**	30,700	(30,359)	564,397

Derivatives are used solely for efficient portfolio and risk management purposes, allowing market risks to be hedged in line with our risk appetite. The notional amount shown reflects the gross notional amount of derivative contracts. Under IFRS certain restrictions apply in relation to the offset of assets and liabilities. Multiple derivative contracts which generate offsetting risk positions inflate the size of the notional amount reported, but do not increase our risk exposure. As such, the notional amount should not be considered as an indicator of the market risk exposure generated by the derivative portfolio. Derivatives where the fair value is positive are recognised as an asset, and where the fair value is negative they are recognised as a liability.

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

D.4 Accrued interest and prepayments

Group and Company	**2021 £m**	2020 unaudited £m
Accrued interest	**417**	433
Prepaid expenses	**224**	230
Total accrued interest and prepayments	**641**	663

D.5 Receivables

Group	**2021 £m**	2020 unaudited £m
Deposits pledged as collateral to third parties	**444**	891
Amounts due from group undertakings	**49**	41
Other receivables	**18**	37
Total receivables	**511**	969

Note D – Financial assets and liabilities (continued)
D.5 Receivables (continued)

Company	2021 £m	2020 £m
Deposits pledged as collateral to third parties	**444**	891
Amounts due from group undertakings	**163**	122
Other receivables	**178**	111
Total receivables	**785**	1,124

All receivables are due within one year. The fair value of receivables is £511m (2020: £969m) for the Group and £785m (2020: £1,124m) for the Company. At 31 December 2021 and 31 December 2020 Rothesay conducted an impairment review of the receivables and found no impairment necessary.

The net exposure to certain OTC derivatives is collateralised through cash posted, as per the terms of the OTC contracts. At 31 December 2021, the total cash collateral posted was £444m (2020: £891m). Further details of the full extent of collateral usage can be found in the credit risk disclosure in note F.2.1

D.6 Cash and cash equivalents
The cash at bank and in hand of Rothesay at the year end is as follows:

Group	2021 £m	2020 unaudited £m
Cash at bank and in hand	**332**	274
Total cash and cash equivalents	**332**	274

Company	2021 £m	2020 £m
Cash at bank and in hand	**159**	186
Total cash and cash equivalents	**159**	186

Notes to the financial statements
continued

Note D – Financial assets and liabilities (continued)
D.7 Payables and financial liabilities

Group	2021 £m	2020 unaudited £m
Derivative financial instruments	**20,688**	30,359
Collateralised financing agreements	**414**	894
Government, sub sovereign and agency obligations	**–**	–
Total financial investment liabilities	**21,102**	31,253
Deposits received as collateral from third parties	**1,537**	2,063
Amounts due to Group undertakings	**101**	66
Current tax payable	**7**	65
Other payables	**37**	99
Total payables	**1,682**	2,293
Total payables and financial investment liabilities	**22,784**	33,546

Company	2021 £m	2020 £m
Derivative financial instruments	**20,688**	30,359
Collateralised financing agreements	**414**	894
Total financial investment liabilities	**21,102**	31,253
Deposits received as collateral from third parties	**1,537**	2,063
Amounts due to Group undertakings	**101**	66
Current tax payable	**7**	65
Other payables	**37**	100
Total payables	**1,682**	2,294
Total payables and financial investment liabilities	**22,784**	33,547

Financial liabilities are recorded at fair value (see note D.2 for accounting policy), of which £4,248m are valued using Level 3 techniques (2020: £4,737m). The Level 3 financial liabilities are predominantly LPI linked derivatives. The remainder of the financial liabilities are valued using Level 2 techniques.

No financial liabilities were transferred from Level 2 to Level 3 in 2021 (2020: £4,731m), or from Level 3 to Level 2 (2020: £Nil). Level 3 financial liabilities have decreased in market value by £489m in the period as a result of changes in economic conditions (2020: £5m increase).

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

Payables and financial liabilities of the Group and Company £7,710m (2020: £5,532m Group and Company) are all due within one year. Please note, that for financial liabilities the balance is calculated using undiscounted expected contractual cash flows consistent with note F.2.3.

The net exposures to certain OTC derivatives are collateralised through cash. As at 31 December 2021, the total cash collateral received was £1,537m (2020: £2,063m). Other OTC contracts are collateralised with fixed income securities which are not recognised on the consolidated statement of financial position for Rothesay.

Note D – Financial assets and liabilities (continued)

D.8 Borrowings

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

Rothesay's borrowings are as follows:

Group and Company	2021 £m	2020 unaudited £m
Subordinated loans from related parties	**299**	298
Subordinated loan notes	**1,131**	1,128
US $400 million contingent convertible Tier 1 notes	**295**	–
Total borrowed	**1,725**	1,426

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

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

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

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

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

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

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

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

On 22 May 2020, RLP issued £100m of Tier 3 bonds with maturity on 12 July 2026 and a fixed 3.375% coupon payable annually in arrears. On 27 May 2020, RLP used the proceeds from the Tier 3 issuance to repay £100m of subordinated loans from related parties.

As part of Rothesay's LIBOR transition programme, with effect from 19 December 2020, the subordinated loan from related parties 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.

Notes to the financial statements

continued

Note D – Financial assets and liabilities (continued)

D.8 Borrowings (continued)

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

Group and Company					Carrying amount		Fair value	
Notional amount	**Issue date**	**Redemption date**	**Callable at par at the option of the Company from**	**Coupon**	**2021 £m**	2020 unaudited £m	**2021 £m**	2020 unaudited £m
Subordinated loans from related parties								
£300m	19 September 2017	19 September 2028	19 September 2023 and annually thereafter	6.05%	**299**	298	**308**	317
Subordinated loans								
£250m	22 October 2015	22 October 2025	No call option	8%	**249**	249	**301**	317
£500m	12 July 2019	12 July 2026	No call option	3.375%	**487**	485	**522**	533
£400m	17 September 2019	17 September 2029	17 September 2024	5.5%	**395**	394	**432**	447
$400m	27 October 2021	Perpetual	13 April 2027	4.875%	**295**	–	**294**	–

Prior to 19 December 2020, the subordinated loan from related parties had a coupon of 3m LIBOR plus 5.95%.

For the year ended 31 December 2021, an interest expense of £85m (2020: £83m) was recognised in the consolidated statement of comprehensive income in respect of these borrowings.

Reconciliation of borrowings

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

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

Group and Company unaudited	1 January 2020 £m	Cash flows £m	Non-cash flows £m	31 December 2020 £m
Subordinated loans from related parties	398	(100)	–	298
Subordinated loan notes	1,029	96	3	1,128
Total borrowings	1,427	(4)	3	1,426

Note E – Insurance contracts and reinsurance

E.1 Insurance contract liabilities, net of reinsurance

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

Group and Company	**2021 £m**	2020 unaudited £m
Insurance contract liabilities	**54,030**	55,247
Reinsurance assets	**(641)**	(616)
Reinsurance liabilities	**1,217**	993
Insurance contract liabilities, net of reinsurance	**54,606**	55,624

E.2 Reinsurance assets/liabilities

Long-term business is ceded to reinsurers under contracts to transfer part of the insurance risk associated with the underlying insurance contracts. Such contracts are accounted for as insurance contracts provided the risk transfer is significant. Reinsurance inwards (i.e. where Rothesay is the reinsurer) is included in insurance contract liabilities.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of the reinsurance company. The reinsurers' share of claims incurred in the profit and loss account reflects the amounts received or receivable from reinsurers in respect of claims paid or incurred during the year. Reinsurance assets/liabilities represent the discounted value of the premiums payable under the reinsurance contracts less the discounted value of the reinsurance claims payable. Premiums are recognised in the consolidated statement of comprehensive income as 'Premiums ceded to reinsurers' when due.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently when an indication of impairment arises during the financial reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that Rothesay may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that Rothesay will receive from the reinsurer. Any impairment loss is recorded in the consolidated statement of comprehensive income.

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

Under the outward reinsurance contracts, Rothesay has committed to pay fixed cash flows to the reinsurer for each policy covered. In exchange, the reinsurers will pay cash flows that are linked to the actual longevity of the underlying policies. The contracts are generally collateralised for changes in longevity expectations and movements in market rates. Where a contract is collateralised, no additional reserves are held as part of the insurance contract liabilities, as the expected loss on default would be expected to be covered by the collateral. For the contracts where no collateral is held, an additional counterparty default allowance is held as part of the insurance contract liabilities to reflect the risk of loss on default. The calculation of the allowance considers the probability of default of the counterparty along with the expected level of collateral available to be reclaimed in the event of default. Longevity reinsurance contracts are valued as the net position comparing the discounted value of the fixed leg payable with the floating leg received from the reinsurer.

The Part VII transfer of £6.4bn of reinsurance associated with the transferring Prudential annuities has increased the reinsurance liability by £0.2bn. Additional reinsurance has been transacted over the period, covering £2.6bn of new and existing business liabilities.

At 31 December 2021 and 31 December 2020, Rothesay conducted an impairment review of the reinsurance assets and found no impairment necessary.

Notes to the financial statements

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Note E – Insurance contracts and reinsurance (continued)

E.3 Insurance contract liabilities

Insurance contract liabilities are determined by Rothesay's actuaries using methods and assumptions recommended by the actuarial function of RLP and approved by the Board. They are calculated using the historic statutory solvency basis required to comply with the reporting requirements under the Financial Services and Markets Act 2000 and in accordance with the SORP on Accounting for Insurance Business issued by the ABI in December 2005 and revised in December 2006. The SORP has been withdrawn with effect for accounting periods beginning on or after 1 January 2015 but Rothesay continues to apply the principles. Rothesay seeks to make prudent assumptions relating to expected future experience based on current market conditions and recent experience. The assumptions used incorporate prudent margins to reflect the inherent uncertainty that actual experience may be less favourable than our best estimate.

Insurance contract liabilities have been determined using the gross premium method of valuation. They are calculated as the discounted value of projected future claim payments (as determined by reference to the contractual arrangements with policyholders at an individual member level) adjusted for future administration costs and investment management expenses determined using prudent assumptions less the present value of future premiums (a schedule of agreed, guaranteed payments) under the longevity swap arrangements. Projected future claim payments allow for the effects of mortality. The administration costs are reflective of recent costs and expenses budgeted for the future.

In accordance with the previous solvency basis, where applicable, Rothesay recognises negative mathematical reserves on its regular premium longevity risk transfer arrangements.

Note that insurance contract liabilities include reinsurance inwards, i.e. where Rothesay has reinsured a third party insurer. Where such contracts benefit from third party reinsurance, the insurance contract liabilities are shown net of those reinsurance arrangements.

Key valuation assumptions

This note details the assumptions with the greatest impact on Rothesay's insurance contract liability valuations.

(a) Mortality assumptions

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

	2021		2020 unaudited	
Group and Company	**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

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

Recent mortality experience is analysed annually for each pension scheme and for insurance originated business. The last review was carried out during 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.

Note E – Insurance contracts and reinsurance (continued)
E.3 Insurance contract liabilities (continued)
Key valuation assumptions (continued)
(a) Mortality assumptions (continued)
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 below are expressed as core CMI model long-term rates and are equivalent on a present value basis to the actual long-term rate adopted. The best estimate long-term improvement rates have remained unchanged through 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.

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

	Future mortality improvements (excluding margins)	
Group and Company	**2021**	2020 unaudited
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

Prudent margins are then applied to both the base mortality assumptions and improvements to reflect the fact that future experience may differ from that assumed. The impact of the margins applied leads to an increase in assumed life expectancy for a 65-year-old of 1.6 years (2020: 1.6 years). No changes have been made to prudent margins during 2021.

(b) Economic assumptions including valuation rate of interest
The valuation rate of interest used to discount the cash flows for the purpose of valuing insurance contract liabilities is based on the risk-adjusted yield obtainable on the basket of assets matching the applicable insurance contract liabilities at 31 December 2021. For the purposes of this calculation, any assets held by LTMF, RMA1 and RMA3 are treated as if they were held directly and inter-company arrangements ignored. Where assets are assumed to be reinvested, we assume that they achieve a yield of SONIA (2020: a yield of SONIA).

A 2.5% prudential margin is then applied to the risk-adjusted internal rate of return obtained on the basket of matching assets and an allowance made for investment management expenses of 3bps p.a. (2020: 3bps p.a.).

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

Group and Company	**2021**	2020 unaudited
Equivalent rate of interest	**1.77% p.a.**	1.32% p.a.

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

Notes to the financial statements
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Note E – Insurance contracts and reinsurance (continued)
E.3 Insurance contract liabilities (continued)
Key valuation assumptions (continued)
(b) Economic assumptions including valuation rate of interest (continued)
The table below shows the average yield deduction by asset class before the application of the 2.5% prudential margin at 31 December 2021 and 31 December 2020.

Group and Company Asset class	Average yield deduction 2021	 2020 unaudited
UK Government approved securities	**0 bps**	0 bps
Secured lending	**29 bps**	35 bps
Supranational/other sovereign	**21 bps**	27 bps
Secured residential lending	**28 bps**	27 bps
Corporate bonds (without covering credit default swaps)	**61 bps**	60 bps
Infrastructure	**65 bps**	67 bps
Equity release mortgages	**74 bps**	112 bps
Other	**41 bps**	43 bps
Overall yield reduction	**33 bps**	35 bps

Since the end of 2020, the average yield deduction has decreased in aggregate. The change in default allowance is mainly due to the change in market conditions during the period.

Allowance is made for the risks associated with equity release mortgages through the valuation of the NNEG and this is included in the overall yield deduction above. The calculation of the NNEG is described in note D.2 and for the valuation rate of interest is calculated on a prudent basis allowing for future property price growth at a rate equivalent to 1.36% net of dilapidation costs and cost of sale (2020: 0.97%) and house price volatility equivalent to 13% (2020: 13%). Due to potential short-term distortion in the housing market during 2020, we included an assumption that house prices would fall 5%, with no offsetting change in assumed future house price growth. The impact of this adjustment is allowed for in the 2020 figures in calculating the value of the NNEG in the yield deduction above. Following the continued recovery of the housing market during 2021, we have removed the assumed 5% fall in house prices from the calculation of the NNEG for 31 December 2021, leading to a fall in the yield deduction. Changes in market conditions, along with the origination of new lower-risk equity release mortgages over the period, have also reduced the yield reduction for equity release mortgages.

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

(c) Expense assumption
The allowance made for future maintenance expenses was updated at the end of 2021 following an investigation into the total costs incurred by Rothesay during 2021 and projected expenses, allowing for efficiency gains as a result of transferring the Prudential annuities to Rothesay's third party administrator. As part of this investigation, costs have been split between acquisition and maintenance expenses.

The insurance contract liabilities include both the projected expenses payable under the third party administration agreements and the long-term business overhead expenses expressed as an amount per policy. The average per policy allowance is £38 per policy per annum (2020: £40 per policy per annum). Additional allowances are then made for short-term project costs and investment management expenses. Within these expense provisions, an allowance for future expense inflation has been made to cover the impact of both salary and price inflation. The future rate of expense inflation is assumed to be RPI (as implied by the RPI swap curve) plus an addition at each duration of 0.25% p.a. for all expenses (2020: 0.25% p.a.).

Note E – Insurance contracts and reinsurance (continued)

E.3 Insurance contract liabilities (continued)

Key valuation assumptions (continued)

(d) Member option and dependants assumptions

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

The modelling of member options allows for the probability that deferred annuitants choose to transfer their benefits each year. The cash flow profile resulting from the assumed take-up of member options impacts the composition of the basket of assets used to derive the valuation rate of interest (see note E.3(b) on the previous page).

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

(e) Movement in insurance contract liabilities, net of reinsurance

The table below details the change in insurance contract liabilities, net of reinsurance, over the period. The release of liabilities line reflects claims paid, release of prudent margins and unwind of discounting over the period. On a net basis, there is no impact from the transfer of Prudential annuities, as the reinsurance liabilities increased by £0.2bn and the gross insurance contract liabilities decreased by the same amount as a result of the transfer.

Group and Company	2021 £m	2020 unaudited £m
Carrying amount at 1 January	**55,624**	48,392
Increase in respect of new business	**2,927**	7,142
Release of liabilities	**(2,435)**	(2,498)
Effect of assumption changes and model refinement	**(1,510)**	2,579
Other	**–**	9
Closing balance at 31 December	**54,606**	55,624

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

Net (decrease)/increase in liabilities	2021 £m	2020 unaudited £m
Change in assumptions used		
Valuation rate of interest	**(3,611)**	3,435
Inflation	**2,243**	(412)
Effect of economic assumption changes	**(1,368)**	3,023
Demographics	**(71)**	(46)
Member options	**–**	(12)
Expenses	**(32)**	70
Model refinement	**(39)**	(456)
Effect of non-economic assumption changes and model refinement	**(142)**	(444)
Total effect of assumption changes	**(1,510)**	2,579

As shown previously, the valuation rate of interest increased by 45bps over the period, which led to the £3.6bn decrease in the net liability shown. This was partially offset by the impact of the rise in future rate of inflation.

Notes to the financial statements

continued

Note E – Insurance contracts and reinsurance (continued)

E.3 Insurance contract liabilities (continued)

Key valuation assumptions (continued)

(f) Sensitivity analysis

The schedule below provides an analysis of the reasonably possible movements in key assumptions that would have a material impact on liabilities (net of reinsurance), profit before tax (PBT) and equity. The analysis is based on a change in a single assumption whilst holding all other assumptions constant. The analysis assumes an instantaneous shock to the assumptions other than for the interest rate and inflation sensitivities where the impact of dynamic hedging is allowed for as market conditions change. As we are now showing a credit spread widening sensitivity rather than a credit default sensitivity, comparative information has been revised accordingly.

2021 Group and Company	Change in assumptions	(Decrease)/ increase in net liabilities £m	Increase/ (decrease) in PBT £m	Impact on equity £m
Annuitant mortality	**+5% qx**	**(186)**	**180**	**146**
Annuitant mortality	**-5% qx**	**201**	**(195)**	**(158)**
Interest rate	**+100bps**	**(6,932)**	**(280)**	**(227)**
Interest rate	**-100bps**	**8,664**	**489**	**396**
Inflation	**+100bps**	**3,401**	**159**	**129**
Inflation	**-100bps**	**(3,177)**	**19**	**15**
Credit spread widening	**+50bps**	**(1,208)**	**(386)**	**(313)**
Change in property prices	**+10%**	**(9)**	**112**	**91**
Change in property prices	**-10%**	**27**	**(171)**	**(139)**
Expenses	**+10%**	**140**	**(140)**	**(114)**

2020 Group and Company	Change in assumptions	(Decrease)/ increase in net liabilities £m	Increase/ (decrease) in PBT £m	Impact on equity £m
Annuitant mortality	+5% qx	(154)	149	120
Annuitant mortality	-5% qx	159	(154)	(125)
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
Credit spread widening	+50bps	(1,285)	(397)	(321)
Change in property prices	+10%	(22)	121	98
Change in property prices	-10%	50	(179)	(145)
Expenses	+10%	142	(142)	(115)

The sensitivities shown capture non-linearity effects, which may be significant following large market movements. The risk management strategy adopted can result in Rothesay being immunised to market movements in either direction.

Given current interest rates, the -100bps interest rate sensitivity results in interest rates falling below zero at some durations (2020: fell below zero for all durations).

The impact of reinsurance on the sensitivity to mortality risk is a reduction of 84% (2020: 87%). The impact of reinsurance has changed due to changes in economic conditions, new business and additional reinsurance transacted through the period.

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

Note E – Insurance contracts and reinsurance (continued)
E.3 Insurance contract liabilities (continued)
Key valuation assumptions (continued)
(g) Timing of cash flows
The table below shows the discounted value of insurance liability cash flows, net of reinsurance, which are expected to arise during each year:

	2021			
Group and Company	**Less than 1 year £m**	**1 to 5 years £m**	**Over 5 years £m**	**Total £m**
Insurance contract cash flows net of reinsurance	**2,624**	**10,310**	**41,672**	**54,606**

	2020 unaudited			
Group and Company	Less than 1 year £m	1 to 5 years £m	Over 5 years £m	Total £m
Insurance contract cash flows net of reinsurance	2,726	10,235	42,663	55,624

Notes to the financial statements

continued

Note F – Risk and capital management

F.1 Capital management

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

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

From 1 January 2016, Rothesay was required to operate under the new Solvency II regime. Rothesay had sufficient capital available to meet its regulatory capital requirements at all times during the year ended 31 December 2021.

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

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

Transitional solvency relief has been recalculated as at 31 December 2021 and amortises by 1/16th each year from 1 January 2017. As at 31 December 2021, solvency estimates allow for amortisation of 5/16ths of transitional solvency relief (2020: 4/16ths).

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

Capital in excess of that required to meet the technical provisions is known as Own Funds. As at 31 December 2021, Own Funds for Rothesay were £8,361m (2020: £7,353m) made up as follows:

Group and Company	2021 £m	2020 unaudited £m
Total IFRS equity	6,139	4,953
Liability valuation differences and other regulatory adjustments	786	904
Total Tier 1	6,925	5,857
Tier 2 debt valuation	948	984
Tier 3 debt valuation	488	512
Own Funds	8,361	7,353

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

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

Note F – Risk and capital management (continued)

F.2 Risk management and analysis

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

Climate change risk is considered within the relevant risk type, for example credit risk includes the potential impact of climate change on the creditworthiness of counterparties. Rothesay is also exposed to the risk that ESG commitments lead us to having to sell assets in order, for example, to reduce carbon intensity. Scenario testing is used to ensure that the implications of ESG commitments are understood before being made and, as a result, the most likely adverse impact from meeting ESG commitments would be the opportunity cost of not being able to make particular investments in the future rather than the need to divest assets held today.

Please see pages 34 to 43 of the strategic review report for further detail on risk management arrangements and the governance framework within Rothesay.

F.2.1 Credit risk

Credit risk represents the potential for loss, or solvency deterioration, due to the default or deterioration in credit quality of a counterparty or an investment we hold. In some instances this risk may arise as a result of 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.

Management is responsible and accountable for managing credit risks within prescribed limits. Effective management of credit risk requires disciplined underwriting, accurate and timely information, strong collateral management, a high level of communication and knowledge of customers, countries, industries and products.

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

Risk mitigants

Rothesay manages credit risk in its investment portfolio by diversifying exposures across and within sectors, controlling position sizes through limits, and regular monitoring and oversight of investments. When making new investments, Rothesay considers the potential exposure to climate change risk and other ESG factors.

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

When Rothesay does not have sufficient visibility into a counterparty's financial strength, or when it believes a counterparty requires support from its parent company, Rothesay may obtain third party guarantees of the counterparty's obligations. Rothesay also mitigates its investment and counterparty credit risk using credit derivatives.

Credit exposures

Rothesay is exposed to credit risk from its receivables from third parties. Receivables from counterparties are generally comprised of collateralised receivables related to derivatives or collateralised agreements transactions and have minimal credit risk due to the value of the collateral received. In addition, Rothesay invests in assets that are typically highly rated, or assets where there is underlying structural security in the event of a default. These assets include supranationals, sovereign bonds, sub sovereign bonds, covered bonds, higher education bonds, infrastructure assets, unsecured corporate bonds and secured residential lending.

Notes to the financial statements

continued

Note F – Risk and capital management (continued)

F.2.1 Credit risk (continued)

Credit exposures (continued)

Further information is provided below:

Cash and cash equivalents. Cash and cash equivalents include both interest bearing and non-interest bearing deposits and investment in money market funds. To mitigate the risk of credit loss, Rothesay diversifies its exposure and places its deposits with multiple banks, typically with minimum ratings in the 'A' rating category. Rothesay only invests in 'AAA' rated money market funds.

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

Collateralised agreements. Collateralised agreements are reported at fair value or contractual value before consideration of collateral received on the balance sheet. Rothesay bears credit risk related to sale and repurchase agreements and securities borrowing only to the extent that cash advanced to the counterparty exceeds the value of the collateral received or charges over assets. Therefore, Rothesay's credit exposure on the transactions is significantly lower than the amounts recorded on the balance sheet. Rothesay also has credit exposure on repurchase agreements and securities loaned, which are liabilities on its consolidated statement of financial position, to the extent that the collateral pledged for these transactions exceeds the amount of cash received.

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.

		2021 Related amounts not offset			
Group and Company	**Net amount of 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 unaudited Related amounts not offset			
Group and Company	Net amount of 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 F – Risk and capital management (continued)
F.2.1 Credit risk (continued)
Credit exposures (continued)
Credit default swaps have been purchased to protect Rothesay from the default of some of its counterparties. The table above does not reflect the protection provided. Rothesay calls margins, receivable in cash and gilt instruments, against this exposure and other derivative positions.

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

Rothesay has the right of offset for certain financial assets and liabilities. Netting under master netting agreements of £16,326m (2020: £26,173m) reflects the offsetting of derivative assets with liabilities for which Rothesay has a right to set off in the event of default. Cash and security collateral have been offset to the extent there are credit exposures on the balance sheet.

Credit ratings
The table below shows Rothesay's credit exposure from financial investments (excluding derivatives), receivables and cash based on external and internal ratings, consistent with management's view of credit risk. The external rating is generally based on the median of the ratings assigned by Standard & Poor's, Moody's and Fitch. For the purpose of Solvency II, unrated assets are internally rated by Rothesay's independent credit risk function under a framework which has been externally validated.

Group	AAA £m	AA £m	A £m	BBB £m	BB £m	Unrated £m	Total £m
2021	**14,692**	**18,504**	**17,052**	**6,883**	**310**	**6,479**	**63,920**
2020 unaudited	12,892	21,476	17,549	6,960	314	5,063	64,254

Company	AAA £m	AA £m	A £m	BBB £m	BB £m	Unrated £m	Total £m
2021	**14,692**	**18,504**	**16,880**	**6,883**	**310**	**6,752**	**64,021**
2020	12,892	21,476	17,462	6,960	314	5,217	64,321

We have excluded derivatives and other assets in the table as the derivatives are collateralised and we feel the presentation above increases clarity of the disclosure and corresponds more closely to the way in which we measure the credit risk. The difference between the total assets shown in the table above and the assets under management (APM) is:

- derivative assets of £20,769m (2020: £30,700m); and
- other assets of Group £682m, Company £695m (2020: Group £704m, Company £717m); less
- payables and financial liabilities of Group and Company £22,784m (2020: Group £33,546m, Company £33,547m).

AAA rated assets include government bonds, supranational bonds, sub sovereigns, covered bonds, US not-for-profit private universities and certificates of deposit. AA rated assets include gilts and corporate bonds. Other net credit exposures rated A and BBB include investments in regulated infrastructure assets and commercial real estate loans, as well as unsecured corporate bonds. One commercial real estate loan has been downgraded by Rothesay's credit risk team to BB.

Unrated assets are UK and Dutch residential mortgages that are not individually rated.

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

Notes to the financial statements
continued

Note F – Risk and capital management (continued)
F.2.2 Market risk
Market risk is the risk of changes in the value of Rothesay's net financial position due to changes in market prices. Financial investments are accounted for at fair value and, therefore, fluctuate on a daily basis. Certain liabilities are also exposed to market risk. Categories of market risk include the following:

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

Sensitivities to market risk are shown in note E.3 (f).

F.2.3 Liquidity risk
Liquidity risk arises where timing differences and/or uncertainties occur between cash inflows and cash outflows. The objective of liquidity management is to ensure that Rothesay is capable of honouring all cash flow commitments on both an ongoing basis and in highly stressed scenarios, without incurring significant cost or business disruption.

Rothesay's liquidity policy is designed to ensure the availability of sufficient funds to meet cash flow requirements on a timely basis via:

- Maintenance of substantial excess liquidity. Rothesay seeks to enter into long-term, illiquid investments that match its liabilities in order to maximise the value of the illiquidity premium. To mitigate residual liquidity risk, Rothesay maintains substantial excess liquidity to meet a broad range of potential cash outflows in a stressed environment including collateral outflows and financing obligations.
- 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 the Group is exposed is maintained. Based upon this analysis, an extensive suite of stresses is considered as part of the liquidity management framework, including onerous market shocks, against which limits are applied by the Board.

Note F – Risk and capital management (continued)

F.2.3 Liquidity risk (continued)

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.

The following table details Rothesay's financial liabilities and assets by maturity. For year end 2021, cash flows arising from financial investments and liabilities have been disclosed using undiscounted expected contractual cash flows. The cash flows have been adjusted for credit risk as this is the best estimation of the flows used to back the liabilities. Historically, Rothesay disclosed discounted cash flows from financial assets and liabilities, and therefore 2020 comparatives have been restated to better comply with IFRS 7: Financial Instruments. Further details of the probability of default are included in note E.3(b). The table excludes insurance liability and reinsurance cash flows, totals of which are included in note E.3. The table also excludes equity release mortgage cash flows which are included in note D.2 and leasehold cash flows which are included in note I.5.

	2021			
Group	**Less than 1 year £m**	**1 to 5 years £m**	**Over 5 years £m**	**Total £m**
Financial assets				
Financial investments	**14,290**	**13,167**	**69,182**	**96,639**
Accrued income and prepayments	**641**	**–**	**–**	**641**
Receivables	**503**	**8**	**–**	**511**
Cash and cash equivalents	**332**	**–**	**–**	**332**
	15,766	**13,175**	**69,182**	**98,123**
Financial liabilities				
Financial liabilities	**(6,028)**	**(2,717)**	**(14,907)**	**(23,652)**
Payables	**(1,682)**	**–**	**–**	**(1,682)**
Borrowings	**–**	**(742)**	**(983)**	**(1,725)**
Accruals and deferred income	**(69)**	**–**	**–**	**(69)**
	(7,779)	**(3,459)**	**(15,890)**	**(27,128)**
Net	**7,987**	**9,716**	**53,292**	**70,995**

Notes to the financial statements
continued

Note F – Risk and capital management (continued)
F.2.3 Liquidity risk (continued)

	2020 unaudited/(restated)			
Group	Less than 1 year £m	1 to 5 years £m	Over 5 years £m	Total £m
Financial assets				
Financial investments	9,873	14,471	79,457	103,801
Accrued income and prepayments	663	–	–	663
Receivables	954	15	–	969
Cash and cash equivalents	274	–	–	274
	11,764	14,486	79,457	105,707
Financial liabilities				
Financial liabilities	(3,239)	(4,957)	(28,277)	(36,473)
Payables	(2,293)	–	–	(2,293)
Borrowings	–	(249)	(1,177)	(1,426)
Accruals and deferred income	(70)	–	–	(70)
	(5,602)	(5,206)	(29,454)	(40,262)
Net	6,162	9,280	50,003	65,445

	2021			
Company	**Less than 1 year £m**	**1 to 5 years £m**	**Over 5 years £m**	**Total £m**
Financial assets				
Financial investments	**14,290**	**13,167**	**69,182**	**96,639**
Accrued income and prepayments	**641**	**–**	**–**	**641**
Receivables	**777**	**8**	**–**	**785**
Cash and cash equivalents	**159**	**–**	**–**	**159**
	15,867	**13,175**	**69,182**	**98,224**
Financial liabilities				
Financial liabilities	**(6,028)**	**(2,717)**	**(14,907)**	**(23,652)**
Payables	**(1,682)**	**–**	**–**	**(1,682)**
Borrowings	**–**	**(742)**	**(983)**	**(1,725)**
Accruals and deferred income	**(69)**	**–**	**–**	**(69)**
	(7,779)	**(3,459)**	**(15,890)**	**(27,128)**
Net	**8,088**	**9,716**	**53,292**	**71,096**

Note F – Risk and capital management (continued)
F.2.3 Liquidity risk (continued)

Company	2020 unaudited/(restated) Less than 1 year £m	1 to 5 years £m	Over 5 years £m	Total £m
Financial assets				
Financial investments	9,873	14,471	79,457	103,801
Accrued income and prepayments	663	–	–	663
Receivables	1,109	15	–	1,124
Cash and cash equivalents	186	–	–	186
	11,831	14,486	79,457	105,774
Financial liabilities				
Financial liabilities	(3,239)	(4,957)	(28,277)	(36,473)
Payables	(2,294)	–	–	(2,294)
Borrowings	–	(249)	(1,177)	(1,426)
Accruals and deferred income	(70)	–	–	(70)
	(5,603)	(5,206)	(29,454)	(40,263)
Net	6,228	9,280	50,003	65,511

F.2.4 Operational risk
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes 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.

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).

Rothesay seeks to mitigate cyber risk through robust processes and controls including data protection, penetration testing and staff training, and maintains ISO27001 and ISO22301 accreditation.

The management of the operational risk associated with Brexit, the COVID-19 pandemic and the transition from LIBOR is discussed in the risk management section of the Strategic report.

Operational risk also includes the risk of conduct failure – a risk that is managed by the Compliance function and overseen by the Customer and Conduct Committee.

Notes to the financial statements
continued

Note F – Risk and capital management (continued)
F.2.5 Insurance risk
Insurance risk is the risk of changes in the value of Rothesay's net position due to changes in the insurance contract liabilities. Insurance risk may occur either through changes in actual demographic experience or revised expectations of future experience. The main categories of insurance risk include the following:

- Demographic risk arises from current mortality or spouse/dependent experience being lighter than that assumed. The risk is hedged by external reinsurance.
- Longevity improvement risk represents the risk of future mortality rates improving at a faster rate than assumed. The risk is hedged by external reinsurance.
- Expense risk results from future expenses required to maintain the business being higher than expected. This risk is managed through budgeting and robust expense management.

As at 31 December 2021, 84% of longevity risk was reinsured (2020: 87%). Risks are monitored and controlled by the actuarial function and overseen by the Chief Actuary and the risk function.

Note G – Other statement of consolidated financial position notes

G.1 Deferred tax liabilities

Deferred income tax is provided using the liability method on temporary differences at the financial statement date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are recognised for all taxable temporary differences except:

- *when the deferred income tax liability arises from the initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and*
- *in respect of taxable temporary differences associated with investments in subsidiary undertakings, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.*

The carrying amount of deferred income tax assets/liabilities is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each financial reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the financial reporting date.

Deferred income tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income tax relates to the same taxable entity and the same taxation authority.

Deferred tax balances comprise:

Group	2021 £m	2020 unaudited £m
Other temporary differences	(5)	–
Total temporary differences	**(5)**	–

Company	2021 £m	2020 £m
Other temporary differences	(119)	(82)
Total temporary differences	**(119)**	(82)

The movements in the deferred tax balances were as follows:

Group	2021 £m	2020 unaudited £m
At 1 January	–	–
Current period charge	(5)	–
At 31 December	**(5)**	–

Notes to the financial statements
continued

Note G – Other statement of financial position notes (continued)
G.1 Deferred tax liabilities (continued)

Company	2021 £m	2020 unaudited £m
At 1 January	**(82)**	(31)
Current period charge	**(37)**	(51)
At 31 December	**(119)**	(82)

Deferred tax assets are only recognised to the extent that, based on management's assessment, they are regarded as recoverable.

During May 2021 the UK government enacted an increase to the rate of UK corporation tax from 19% to 25% which will apply from 1 April 2023. As a result of this, Rothesay has amended the deferred taxation calculations to take account of the rate increase. The increase led to an £40,000 increase in the deferred tax liability for the Company.

Note H – Interests in subsidiaries and associates

H.1 Investment in unconsolidated structured entities

Rothesay has interests in investments which are classified under IFRS as unconsolidated structured entities. A structured entity is an entity that has been designed so that voting or similar rights are not the dominating factor in deciding who controls the entity, such as when voting rights might relate to administrative tasks only and the relevant activities are directed by means of contractual arrangement. Structured entities include those entities that have restricted activities or a narrow and well-defined objective. These structured entities have not been consolidated as Rothesay does not have the power to affect their returns.

Rothesay has interests in unconsolidated structured entities as described below:

- investment in collective investment schemes which allows Rothesay to receive profit or income from the underlying assets held in the schemes, of which the total asset value was £282bn (2020: £256bn);
- loans granted to and notes issued by special purpose vehicles (SPVs) secured by the assets held by the SPV such as commercial or residential real estate;
- debt securities issued by SPVs secured by financial receivables; and
- loans granted to SPVs secured by financial receivables.

The 2020 comparative figures have been updated to reflect Rothesay's interests in collective investment schemes, the comparative has been updated to ensure completeness and has not impacted on the statement of financial position balances.

As at 31 December 2021, our total interest in such entities, reflected on Rothesay's statement of financial position and classified as financial investments held at fair value through profit or loss, was £13,271m (2020: £11,600m). The recorded fair value represents Rothesay's maximum loss exposure to these unconsolidated structured entities. The £1,671m increase in the balance was predominantly driven by an increase in investment in collective investment schemes, and higher mark-to-market values of loans secured on property.

The interest income recognised in relation to these investments was £193m (2020: £197m).

A summary of Rothesay's interest in unconsolidated structured entities is provided below:

Group and Company	**2021 £m**	2020 unaudited £m
Collective investment schemes	**5,405**	4,286
Government sub sovereign and agency obligations	**50**	53
Corporate bonds and other corporate debt	**1,556**	1,503
Loans secured on property	**6,260**	5,758
Total	**13,271**	11,600

Notes to the financial statements

continued

Note H – Interests in subsidiaries and associates (continued)

H.2 Investments in subsidiaries

The financial statements include the financial statements of Rothesay Life Plc and the subsidiaries listed in the following table:

Company undertakings	Country of incorporation	Primary business operation	2021 £m	2020 £m	2021 % equity interest	2020 % equity interest
LT Mortgage Financing Limited (LTMF)	UK	Service company	**6**	6	**100%**	100%
Rothesay Property Partnership 1 LLP	UK	Service company	**–**	–	**100%**	–
Rothesay MA No.1 Limited (RMA1)	UK	Service company	**5**	5	**100%**	100%
Rothesay MA No.2 Limited (RMA2)	UK	Service company	**–**	–	**100%**	100%
Rothesay MA No.3 Limited (RMA3)	UK	Service company	**2**	2	**100%**	100%
Rothesay MA No.4 Limited (RMA4)	UK	Service company	**–**	–	**100%**	100%

Subsidiaries are held at cost less impairment.

The above subsidiary undertakings, are registered in the United Kingdom. The registered office and principal place of business for all subsidiary undertakings is The Post Building, 100 Museum Street, London WC1A 1PB.

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

Rothesay MA No.2 Limited was incorporated during March 2019. Rothesay MA No.4 Limited was incorporated during November 2019. Both entities remain dormant.

Rothesay MA No.3 Limited was incorporated during November 2019 and began trading in December 2020.

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

Note I – Other notes

I.1 Company profit

The profit for the financial year of the Company was £742m (2020: profit of £1,194m). As permitted by Section 408 of the Companies Act 2006, the Company's statement of comprehensive income has not been included in these financial statements.

I.2 Share-based payments

Historically, the cost of equity-based transactions with employees has been measured based on grant-date sale value.

The fair value was determined at grant date and expensed on a straight-line basis over the vesting period in profit and loss. At each reporting date Rothesay revised its estimate of the number of shares that were expected to be issued and recognised the impact of the revision of original estimates.

During December 2020, Rothesay amended its remuneration policy in relation to the deferred equity award plan (previously known as the Long Term Stock Incentive Plan) to give employees the choice of receiving cash or equity for vestings from December 2021 onwards. For these awards, the fair value of the grant will now be reassessed at each reporting period and any change charged to profit and loss.

Share-based employee awards that require future services are amortised over the relevant service period. Expected forfeitures are included in determining share-based employee compensation expenses.

During the year ended 31 December 2015, Rothesay created a stock incentive plan, now known as the deferred equity award plan which provided for grants of restricted stock units (RSUs).

Rothesay issued RSUs to the employees under the deferred equity award plan, primarily in connection with year-end compensation. These RSUs vest and deliver as outlined in the applicable RSU agreements. Vesting is subject to the recipient not having left employment or having left employment as a result of death, permanent illness, redundancy or retirement (subject to Remuneration Committee approval). Delivery of the RSUs is in the form of shares or an equivalent amount of cash (subject to the approval of the Remuneration Committee). All RSUs have a future service requirement. Note that we have provided an estimate for the number of RSUs granted during the year because, although the awards have been approved in principle by the Remuneration Committee, the actual number will not be finalised until after the financial statements have been approved.

The activity related to the deferred equity award plan RSUs is set out below:

	2021 No. of RSUs	2020 unaudited No. of RSUs
Outstanding at the beginning of the year	**14,046,916**	15,122,186
Forfeited during the year	**(238,851)**	(23,030)
Vested during the year	**(6,587,517)**	(5,211,453)
Granted during the year	**4,283,378**	4,159,213
Outstanding at the end of the year	**11,503,926**	14,046,916

On 3 March 2020, the Company established a new HMRC-approved employee share plan known as the Employee Share Incentive Plan (ESIP). Under the ESIP, Rothesay offered shares to all eligible UK employees as part of year-end compensation. The rules governing withdrawal of the shares from the ESIP Trust and subsequent tax treatment are set by HMRC. They are disclosed as employee scheme shares until they are withdrawn. The ability to withdraw shares is generally subject to the recipient not having left employment before three years from grant date.

Notes to the financial statements
continued

Note I – Other notes (continued)
I.2 Share based payments (continued)

The activity related to the ESIP RSUs is set out below:

	2021 No. of RSUs	2020 unaudited No. of RSUs
Outstanding at the beginning of the year	**223,200**	–
Forfeited during the year	**(35,100)**	(3,600)
Granted during the year	**304,200**	226,800
Outstanding at the end of the year	**492,300**	223,200

The methodology for calculating the fair value of the RSUs is intended to give a price consistent with the price paid by MassMutual and GIC for Blackstone's shareholding at the end of 2020. The weighted average fair value of the RSUs at 31 December 2021 was £4.15 (31 December 2020: £4.00).

Share appreciation plan
During December 2020, a new long-term share appreciation plan (the SARs plan) was created which provides for grants of cash-settled share appreciation rights (SARs). The SARs provide the right to receive the upside on a fixed proportion of an agreed value of Rothesay shares over a defined time horizon, paid out in cash, subject to achievement of returns above an agreed hurdle. The SARs were awarded for the first time in 2021 and vest and deliver as outlined in the applicable agreement. Vesting is subject to the recipient not having left employment or having left employment as a result of death, permanent illness, redundancy or retirement (subject to Remuneration Committee approval). All SARs have a future service requirement. Share appreciation rights were granted in January 2021 and December 2021.

The valuation of the SARs is based on a Black-Scholes option pricing model and uses the same methodology for valuing shares as is used for share-based payments but with adjustments for payment of dividends in the vesting period. The weighted average fair value and assumptions used to determine the fair value of the SARs are as follows:

- Weighted average fair value at grant date £0.72
- Expected volatility 30%
- Outstanding vesting period 3 years from issue
- Risk free interest rate nil

The number of SARs awarded is as follows:

	2021 No. of SARs	2020 unaudited No. of SARs
Outstanding at the beginning of the year	**–**	–
Forfeited during the year	**–**	–
Vested during the year	**–**	–
Granted during the year	**50,726,066**	–
Outstanding at the end of the year	**50,726,066**	–

Expenses in relation to share-based payment schemes
Expenses of £38m (2020: £15m) have been charged to the profit and loss of Rothesay during the year in relation to the various share-based payment schemes. The year-on-year increase arises from the cost of the SARs and the change in remuneration policy at the end of 2020 and associated changes in accounting.

Note I – Other notes (continued)

I.3 Related parties disclosures

Ultimate holding company

At the financial statement date, the immediate and ultimate parent company was Rothesay Limited, which is incorporated in the United Kingdom. Group financial statements are prepared for Rothesay Limited, copies of which can be obtained from the Company Secretary, The Post Building, 100 Museum Street, London WC1A 1PB.

Related party transactions

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

	2021 £m	2020 unaudited £m
Statement of comprehensive income		
Change in the reinsurers' share of insurance contract liabilities and reinsurance recoveries	**40**	115
Finance costs	**(18)**	(21)
Operating expenses	**(7)**	(8)
Statement of financial position		
Reinsurance	**199**	159
Borrowings	**299**	298
Capital	**2,463**	2,463

Transactions with key management personnel

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

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

Group and Company	**2021 £m**	2020 unaudited £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 was 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.

Notes to the financial statements
continued

Note I – Other notes (continued)
I.3 Related parties disclosures (continued)
Ultimate holding company (continued)
Transactions with key management personnel (continued)

The tables below represent transactions between RLP, its parent Rothesay Limited, its subsidiaries LTMF, RMA1 and RMA3 and other group companies RPML and Rothesay Asset Management US LLC.

Transactions with RL	2021 £m	2020 £m
Statement of comprehensive income		
Cost transfer	**5**	5
Statement of financial position		
Other receivables	**49**	41
Capital	**2,463**	2,463

Transactions with LT Mortgage Financing Limited	2021 £m	2020 £m
Statement of financial position		
Other receivables	**67**	66
Capital	**6**	6

Transactions with Rothesay MA No.1 Limited	2021 £m	2020 £m
Statement of financial position		
Other receivables	**40**	12
Capital	**5**	5

Transactions with Rothesay MA No.3 Limited	2021 £m	2020 £m
Statement of financial position		
Other receivables	**6**	1
Capital	**2**	2

Transactions with RPML	2021 £m	2020 £m
Statement of comprehensive income		
Cost transfer	**(113)**	(99)
Statement of financial position		
Other payables	**100**	65

Transactions with Rothesay Asset Management US LLC	2021 £m	2020 £m
Statement of comprehensive income		
Transaction fee	**–**	–
Service fee	**(6)**	(6)
Statement of financial position		
Other receivables	**–**	–
Other payables	**1**	3

Note I – Other notes (continued)
I.3 Related parties disclosures (continued)
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 of the ERMs in exchange for the issue of loan notes. These transactions took place on an arm's length basis using the fair value of the equity release mortgages. Under IAS 39, the loans cannot be derecognised from the Company as RLP effectively maintains all the risk and rewards and control of the mortgages after the securitisations through the loan notes. For the purposes of determining the valuation rate of interest under IFRS 4, these securitisations are ignored.

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. This transaction took place on an arm's length basis using the fair value of the Dutch mortgages. Under IAS 39, the loans cannot be derecognised from the Company as RLP effectively maintains all the risk and rewards and control of the mortgages after the securitisations through the loan notes. For the purposes of determining the valuation rate of interest under IFRS 4, this securitisation is ignored.

I.4 Financial commitments and contingencies
During previous years, Rothesay executed transactions to purchase partly funded bonds and forward settling bonds. Rothesay expects to pay a further £784m within the next five years (2020: £999m), £508m of this being due within 12 months of the financial reporting date (2020: £561m).

Group and Company	2021 £m	2020 unaudited £m
Not later than one year	**508**	561
Later than one year and no later than five years	**276**	438
Later than five years	**–**	–
Total other commitments	**784**	999

Notes to the financial statements

continued

Note I – Other notes (continued)

I.5 Leases

(a) Amounts included in the statement of financial position

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

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

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

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

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

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

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

Rothesay's right of use assets represents the lease on the UK office executed in May 2019. The lease for the UK office, The Post Building, has a duration of 17 years with a break clause at 12 years which we have assumed is exercised. The incremental borrowing rate was 3.37%.

Rothesay was not a lessor during the period.

Right-of-use assets

Group and Company	2021 £m	2020 unaudited £m
Right-of-use asset	**30**	34
Right-of-use asset – property		
Balance at 1 January	**34**	37
Depreciation charge for the year	**(4)**	(3)
Additions	**–**	–
Closing balance at 31 December	**30**	34

Note I – Other notes (continued)
I.5 Leases (continued)
(a) Amounts included in the statement of financial position (continued)

Lease liabilities

Group and Company	2021 £m	2020 unaudited £m
Lease liability	**42**	40
Maturity analysis based on undiscounted liabilities		
Current liabilities		
Less than one year	**5**	–
Non-current liabilities		
One to five years	**21**	22
More than five years	**12**	20
Total undiscounted lease liabilities	**38**	42

(b) Amounts recognised in the statement of comprehensive income

Group and Company	2021 £m	2020 unaudited £m
Depreciation charge of right-of-use assets – property	**4**	3
Financing charge on lease liabilities (included in note B.4 Finance costs)	**1**	1

(c) Amounts recognised in statement of cash flows

Group and Company	2021 £m	2020 unaudited £m
Depreciation charge of right-of-use assets – property	**4**	3
Financing charge on lease liabilities	**1**	1
Total cash flows for leases	**–**	–

As noted on page 28, throughout the financial statements Rothesay has used a variety of measures to provide stakeholders with the necessary information on the performance and financial position of Rothesay. Where it is possible to reconcile to the financial statements this is referenced; however, some of these measures are not on a consistent basis with IFRS and therefore the methodology is explained below. Where relevant, we have used accounting policies and assumptions that are consistent with the IFRS financial statements.

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

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

Assets under management (APM)	2021 £m	2020 unaudited £m
Total assets	**86,011**	96,275
Less reinsurance assets	**(641)**	(616)
Less payables and financial liabilities	**(22,784)**	(33,546)
Assets under management	**62,586**	62,113

Alternative presentation of IFRS profits

Alternative Performance Measures

The alternative presentation of IFRS profits seeks to provide an explanation of the way in which profits have been generated by considering the movement in assets alongside the movement in liabilities. When taken together with the other items in the alternative analysis of profit generation, the items can be reconciled to the IFRS financial statements. See page 28.

Measure	Reconciliation to IFRS
New business profit – IFRS new business profit projected to be realised (before release of IFRS margins)	New business premium (note B.1) less increase in net insurance liabilities as a result of new business assuming that the premiums are invested in line with our long-term investment strategy. This analysis has been prepared assuming that once fully invested, the risk-adjusted yield on all the assets held increases by 2bps compared to the 1.77% yield being achieved at 31 December 2021 (2020: an increase of 7bps).
Impact of temporary investment delay	The difference between the new business profit based on the actual assets held to back the liabilities at the reporting date and the new business profit above. We anticipate that this will reverse as assets are invested according to the long-term investment strategy. The impact will be reduced to the extent that the investment mix on new business has changed between inception and the reporting date.
Investment profit from prior year – IFRS profits from investment of prior year premiums	The effect of economic assumption changes on net insurance liabilities due to change of investment mix in relation to business in force at the start of the period. Any profits made from investment in excess of those disclosed in prior years as the impact of temporary investment delay would offset the current year's impact of temporary investment delay (if applicable).
Performance of in-force book – Profits or losses generated on the in-force book of business	Investment return* expected on the assets held plus reinsurance recoveries and release of net insurance liabilities less premiums ceded to reinsurers and policyholder claims. This represents the profit that can be attributed to: • the release of prudent margins as the business runs off (including credit default allowances and expense reserves) and as members exercise their options; • the impact of actual demographic experience versus assumptions; and • the investment return on surplus assets.
Non-economic assumption changes – profits or losses generated from non-economic assumption changes	Effect of non-economic assumption changes on net insurance liabilities (note E.3(c)).
Acquisition costs	Acquisition costs from note B.3.
Maintenance expenses	Administration expenses – recurring from note B.3.
Operating profit before tax – gross IFRS profit adjusted for the impact of market fluctuations, exceptional expenses and financing costs	Sum of the above.
Borrowing costs	Interest payable on borrowings. This is a subset of finance costs shown in note B.4.

Alternative presentation of IFRS profits (continued)

Measure	Reconciliation to IFRS
Project and other one-off expenses	Administration expenses – project and other one-off expenses from note B.3.
Economic profits – profit or losses generated as a result of changes in economic conditions	Change in asset valuation due to changes in economic conditions less the effect of economic assumption changes on net insurance liabilities (note E.3(c)). Changes in economic conditions include movements in interest rates, inflation, exchange rates, credit spreads, credit default allowances, actual defaults and property prices. The release of credit default allowances over time is included in the performance of the inforce book.
Profit before tax	Sum of the above and consistent with reported profit.

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

Alternative Performance Measures

continued

Solvency measures

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

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

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

Other APMs

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

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

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

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

Glossary of terms

Acquisition costs	Acquisition costs comprise the expenses associated with the origination of new business, including annual compensation for employees.
Administration expenses – recurring	Administration costs (shown in note B.3) represent the cost of administering the in-force book of business. They include both outsourcing costs and other costs incurred by Rothesay.
Annuity	A series of regular payments made to an individual until their death. Payments may be indexed.
Assets under management	See Alternative Performance Measures.
Best estimate liability (BEL)	The liabilities of Rothesay calculated on a best estimate basis under Solvency II, i.e. where all the assumptions made in the calculation are best estimate.
Bid price	A bid price is the price a buyer is willing to pay for a security.
Brexit	The UK's withdrawal 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.
Carbon intensity	A measure of emissions that allows for comparison between entities of different size. It is measured in t CO_2e / million USD of revenue annually.
Collateralised agreements/investments	Loans secured on property or other collateral.
Collective investment schemes	A way of investing money alongside other investors.
Corporate bonds and other corporate debt	These are debt securities issued by corporations which are not guaranteed by governments.
Covered bonds	Covered bonds are debt securities issued by a bank or mortgage institution and collateralised against a pool of assets.

Glossary of terms
continued

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.
Customer satisfaction	See Alternative Performance Measures.
Deferred annuities	Annuities or pensions due to be paid from a future date or when the policyholder reaches a specified age.
Demographics	Statistical data relating to the population and particular groups within it.
Distributable profits	A company's profits available for distribution are its accumulated realised profits.
Economic profits	See Alternative Performance Measures.
Employee benefit trust (EBT)	A trust established to purchase and hold shares of the Company for delivery under employee share schemes.
Equity-based compensation	Share-based transactions awarded under incentive plans.
Equity release mortgages (ERMs)	Mortgages extended to older customers (aged 55 and over) against their residential property at low loan-to-value percentage. Unlike a typical residential mortgage, no interest is paid monthly by the customer. Instead, the interest is simply added to the principal loan amount with the loan only repayable on death or entry into long-term care of the last remaining homeowner.
Fair value	Amount that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Finance costs	Represent interest payable on borrowings.
Fixed-for-term mortgages	Residential mortgages where the interest rate payable is fixed at outset for the whole term of the mortgage.
Full internal model (FIM)	Under Solvency II, insurer's own model used to calculate the solvency capital requirement in relation to particular risks approved by the PRA.
Government, sub sovereign and agency obligations	A bond issued by a country's government or corporate debt which is guaranteed by a government to repay borrowed money at a specific time.
Gross premiums written	Premiums received by RLP on new business and generated through regular premiums.

In-force	An insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated.
Infrastructure	Investments in infrastructure such as water, energy and transportation.
Insurance risk	The risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.
International Financial Reporting Standards (IFRS)	Accounting standards that are applied in preparing Rothesay's consolidated financial statements.
Investment profit from prior year	See Alternative Performance Measures.
Investment return	Comprises all interest income on financial investments at fair value through profit and loss, realised investment gains and losses and movements in unrealised gains and losses, as well as expenses directly related to investments executed during the year.
Inwards 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 is due to be phased out at the end of 2021.
Limited Price Indexation (LPI)	LPI is a pricing index used to calculate increases in components of scheme pension payments in the UK.
Liquidity premium	An addition to the risk-free rate used when projecting investment returns and discounting cash flows on certain types of contracts where the liabilities are illiquid and have cash flows that are predictable.
Liquidity risk	The risk of being unable to realise investments and other assets in order to settle financial obligations when they fall due.
Longevity reinsurance (%)	See Alternative Performance Measures.
Longevity risk	The risk that a company could be exposed to a higher payout as a result of increasing life expectancy.
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 risk	The risk of loss or of adverse change resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

Glossary of terms
continued

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

Pillar 1	Under Solvency II, represents the solvency capital requirement calculated using a standard formula or (partial) internal model.
Pillar 2	Under Solvency II, represents the required risk management principles and practices relating to the risk and capital estimates covered by Pillar 1.
Policyholders	The Company generally uses the term policyholder to refer to the individual immediate and deferred annuitants whose benefits are insured by the Company regardless of whether the insurance is provided under a bulk annuity (where the contract is with the pension scheme) or a reinsurance policy (where the contract is with the insurance company).
Prudential Regulation Authority (PRA)	The PRA is the UK regulatory body responsible for prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
qx	qx is actuarial notation used to represent the probability of a life aged x dying during the year.
RAL	Rothesay Assurance Limited. This has now been liquidated.
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.
RSUs	Restricted share units.
SARs	Share Appreciation plan. Provides for grants of cash-settled share appreciation rights.
S2PMA/S2PFA	S2PMA/S2PFA refer to mortality tables drawn up by the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries. These represent version 2 of the industry standard tables derived from pensioner data from self-administered pension schemes. Separate tables are utilised for males and females.
SCR coverage %	See Alternative Performance Measures.

Glossary of terms
continued

Secured investments	Bespoke investments where very high levels of collateral have been negotiated and returns are generated through illiquidity premium.
Single premiums	Single premium policies of insurance are those that require only a single lump sum payment from the policyholder.
Sk	Smoothing parameter in CMI longevity improvement model determining the weighting on recent experience. Given recent improvements, a higher Sk than adopted by RL will generally lead to a higher initial assumed rate of mortality improvement.
Solvency capital requirement (SCR)	See Alternative Performance Measures.
Solvency II	The solvency regime applicable from 1 January 2016. Under Solvency II, the Company is required to hold the greater of the capital required under the new Solvency II Pillar 1 framework and the capital required under its own economic capital models Solvency II Pillar 2.
SONIA	The Sterling Overnight Index Average, abbreviated to SONIA, is the effective overnight interest rate paid by banks for unsecured transactions in the British sterling market.
Strategy risk	The risk of loss in future earnings and capital arising from changes in the competitive, economic, legal or political environment, changing customer behaviour, or a failure to select appropriate strategic or long-term business plans.
Subordinated loan	A fixed interest issue or debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for added risk through higher rates of interest. Under Solvency II, subordinated debt is not treated as a liability and counts towards the coverage of the required minimum margin of solvency with limitations.
Surrender	The termination of a life insurance policy or annuity contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, of the contract.
Third party administration (TPA) agreement	Contract with pensions administrator to process claims and payroll on behalf of Rothesay.
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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