Rothesay

Rothesay Life Plc
Interim condensed consolidated financial statements for the six months ended 30 June 2021

Our purpose

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

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

Highlights

Key statistics

	HY2021	HY2020	FY2020 unaudited
New business premium **APM**[1]	**£1.6bn**	£0.7bn	£7.0bn
Solvency Capital Requirement (SCR) coverage **APM**	**204%**	189%	203%
Percent reinsured **APM**	**84%**	83%	87%
IFRS profit before tax	**£331m**	£811m	£1,474m
Customer satisfaction **APM**	**95%**	93%	95%
Assets under management **APM**	**£60.7bn**	£55.9bn	£62.1bn
Number of policies	**850,273**	831,661	847,839
Paid to policyholders in the period	**£1.4bn**	£1.3bn	£2.8bn
Rating of Rothesay Life Plc	**A3 Moody's Investor Service and A+ by Fitch Ratings**		

A glossary of terms used can be found on page 54.

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

Who we are

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

Rothesay is the UK's largest pensions insurance specialist, 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 every policyholder we look after.

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 Allied Domecq, Asda, British Airways, Cadbury's, the Civil Aviation Authority, National Grid, the Post Office, Prudential and telent.

Underpinned by sophisticated risk management, our expert team never stops developing new ways to drive predictable, dependable returns that minimise risk and create real security.

Today, we manage over £60 billion in assets, secure the pensions of over 800,000 people, and pay out, on average, over £200 million in pension payments each month. We are securing the future for every one of our clients and policyholders, and improving how pensions are delivered as we do it.

What we deliver

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

+

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

Section

2 Strategic Report

> Rothesay's financial strength means that we are well positioned to secure future opportunities

Addy Loudiadis
Chief Executive Officer

Chief Executive's statement

The COVID-19 pandemic has impacted all of our lives for far longer than we might ever have imagined at the start and, although the UK vaccination programme means that lockdown is beginning to ease, the legacy of COVID-19 both in terms of economic impact and lives lost will be with us for years to come.

Throughout this period, our first priority has been to prioritise the health and safety of our people as well as ensuring our policyholders continue to receive their pension as normal. 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 COVID-19 pandemic.

Almost all of our people were working from home in the first half of 2021 and all parts of the business have been able to operate effectively. Home working has also been effective for our third party administrators, enabling us to continue to provide our policyholders and clients with industry-leading levels of customer service.

The first half of 2021 saw significant increases in long-term interest rates and inflation combined with day-to-day volatility. Our purpose-built financial risk management systems have continued to prove their worth in supporting us in protecting both the solvency position and the embedded value of the business. Regular stress testing and live monitoring of the financial and solvency position of Rothesay has allowed us to respond dynamically as market conditions have evolved throughout the period and SCR coverage ratio remains high at 204% (HY2020: 189%, FY2020: 203%).

Group performance

As well as focusing on protecting the balance sheet, we have been gradually investing the premiums generated during 2020 according to our long-term investment strategy. When we underwrite new business, we assume that it will take time to invest the premiums and this allows us to be patient in making investments, particularly under the investment conditions prevailing in the first half of 2021 where risk-adjusted returns were low. Despite such market conditions, we are making good progress in investing the 2020 premiums and this helped contribute to IFRS pre-tax profits of £331m (HY2020: £811m, FY2020: £1,474m).

Our investment portfolio continues to have an average rating of AA and is focused on assets with high-quality collateral.

Given subdued new business opportunities in the first half of 2021, our performance has been good. Rothesay has assisted seven pension schemes to de-risk during the first six months of 2021, generating £1.6bn of new business premiums (HY2020: £0.7m, FY2020: £7.0bn). New business transactions have continued to be executed remotely and even under these difficult working conditions, we continue to apply a rigorous approach to underwriting and due diligence. As lockdown eases, we look forward to re-connecting with our clients and their advisers in person.

We are delighted to have been awarded the Risk Management Provider of the year at the Pensions Age Awards 2021. The award recognises a provider that has delivered innovative solutions to help pensions schemes to manage, or remove, their risks.

Assets under management fell from £62.1bn at the end of 2020 to £60.7bn at 30 June 2021, largely as a result of the increase in long-term interest rates.

More details on our financial performance can be found in the financial review on page 12.

Risk and capital management

The macroeconomic environment worldwide has continued to be challenging during 2021. We have seen significant increases in long-term interest rates and day-to-day volatility and tightening credit markets have made it difficult to find attractive investment opportunities.

Chief Executive's statement
continued

In rapidly changing market conditions, having detailed real-time information is critical for the successful and efficient operation of any insurance business. Our market-leading financial risk management systems provide us with a strong advantage and allow us to proactively 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 solvency balance sheet remains strong with Own Funds of £7.2bn (HY2020: £6.9bn, FY2020: £7.4bn) and an SCR coverage ratio of 204% (HY2020: 189%, FY2020: 203%), well above our target operating range and giving us significant surplus capital to write new business or pay dividends. Rothesay's liquidity has also remained robust throughout the first six months of the year and we continue to hold large liquidity buffers.

We continue to hedge market and longevity risk exposures, using robust collateral provisions to mitigate counterparty risk. In June, we reinsured some of the longevity risk associated with the first half's new business resulting in us having hedged 84% of our longevity exposure as at 30 June 2021 (HY2020: 83%, FY2020: 87%).

Our policyholders
Providing over 800,000 policyholders with a safe and secure pension is at the heart of what we do. We pride ourselves on the quality of the service we provide. Despite the continued challenges caused by remote working, this has been achieved with service levels being met consistently.

During the first half of 2021, over 95% **(APM)** (HY2020: 93%, FY2020: 95%) of customers rated the quality of service they received as good or excellent and complaints remain relatively low at an annual rate of 1.17 per 1,000 policyholders **(APM)** (HY2020: 0.65 per 1,000, FY2020: 0.98 per 1,000). We take all complaints seriously and after thorough investigation just 0.44 complaints per 1,000 policyholders **(APM)** (HY2020: 0.33 per 1,000; FY2020: 0.42 per 1,000) were upheld by us.

During the first half of 2021, we completed the initial phase of the rollout of our new online policyholder service. The majority of our policyholders now have online access to their policies, allowing them to access their policy and payment information. Policyholders can also view the personal data we hold on them and update this online.

Our people
Our people are a key strength of Rothesay and despite the challenges of home-schooling, remote working and lockdown, the business has continued to operate normally. I am proud of the way that everyone at Rothesay has responded to the challenges created by COVID-19, allowing us to successfully navigate the unprecedented conditions caused by the pandemic.

We are looking forward to welcoming our people back to the office when conditions allow as we believe that this facilitates a dynamic culture which supports collaboration, creativity and learning.

In the first half of 2021, we have continued to recruit, particularly to strengthen our control functions in line with our planned growth and to support development of our IT platform. As at 30 June 2021, Rothesay had 333 employees (HY2020: 280, FY2020: 305).

Environmental, Social and Governance matters
Rothesay is determined to play its part in combatting climate change and global warming. In May, we announced that Rothesay has become a member of the UN-convened Net-Zero Asset Owner Alliance. The Alliance commits members to transitioning 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. Members also agree to regularly report on their progress by adopting interim targets every five years which we believe is vital to delivering a clear pathway to net zero.

In 2019 Rothesay Limited established the Rothesay Foundation with the aim of supporting charities that seek to improve the quality of life for older people, helping them to live their lives in a happy, safe and fulfilling way. The Foundation has made a good start, supporting a number of charities so that they can continue their crucial work during the global pandemic. The Foundation is not incorporated into the condensed consolidated financial statements as the charity is controlled by its trustees rather than the Group.

For more information see our Environmental, Social and Governance report 2020, which can be found on the Rothesay Limited website.

Chief Executive's statement
continued

Looking forward

The UK economy now looks well placed to recover from the pandemic and there is a healthy new business pipeline with commentators predicting a total bulk annuity market size for 2021 of over £30bn (2020 also exceeded £30bn). As always, we remain disciplined in new business pricing.

Tight credit spreads are currently making it challenging for us to find appropriate long-term investments and we continue to look for new investment opportunities where they are aligned with our strategy and investment criteria. Rothesay's strong balance sheet means that we are well placed to secure future opportunities as they arise and that we can remain patient in investing assets.

Finally, I would like to take this opportunity to thank our people and our administration partners for their continuing efforts. Thanks to them I am confident that Rothesay will continue to thrive, providing pension security for our policyholders and value to our shareholders over the long term.

Addy Loudiadis
Chief Executive Officer
12 August 2021

Business review

COVID-19

As the UK lockdown eases, we are closely monitoring government guidelines and have started welcoming a limited number of employees back to the office. We are being cautious in terms of the timing and transition back to the office and have put in place measures such as one-way systems, increased frequency of cleaning, touch-free automated doors and two-metre distancing to minimise the risk of COVID-19 transmission in the office. We have also been offering COVID-19 lateral flow tests to all our people and requiring that they take a test each day before they come into the office.

We continue to monitor, on a daily basis, the impact of COVID-19 on our third party administrators and other outsourcing partners and are pleased that with their help we have been able to deliver our market-leading customer service throughout the pandemic.

New business

As noted above in the Chief Executive's report, during the first half of 2021, we have assisted seven pension schemes to de-risk their liabilities, resulting in new business premiums **(APM)** of £1.6bn (HY2020: £0.7bn, FY2020: £7.0bn).

We also entered into one new reinsurance agreement covering some of the longevity risk associated with this new business.

Investment activity

Our in-house team is responsible for the management of Rothesay's £61bn asset portfolio. Assets are sought which match our liability cash flows and which provide an appropriate risk-adjusted return. Rothesay operates a cautious investment strategy which seeks to diversify exposure and actively manages risk. We are constantly looking for new ways to reduce risk and achieve the dependable returns that create real security for people's pensions in the future.

Following the £7.0bn of new business transacted during 2020, Rothesay has substantial cash and gilts to deploy 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 the first half of 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.

We have seen strong equity release mortgage (ERM) volumes during the first six months of 2021. As at 30 June 2021, our total ERM portfolio has increased to £4.5bn (HY2020: £3.1bn, FY2020: £4.2bn) or 7% of assets under management (HY2020: 5%, FY2020: 7%). We also continue to fund Dutch residential mortgages.

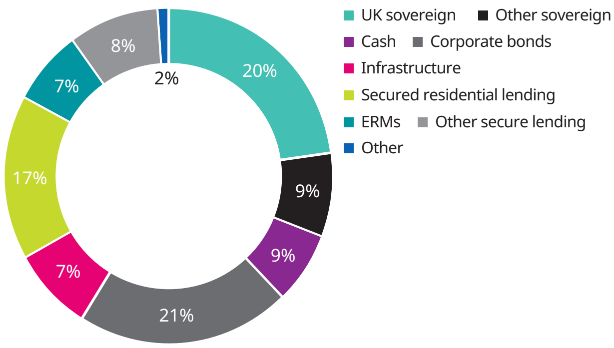
The average rating of Rothesay's investment portfolio remains AA and the portfolio can be divided into three broad categories:

- **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 also invest in a diversified portfolio of corporate bonds, including regulated infrastructure such as water, energy and transportation.
- **Secure, illiquid assets** – These assets include loans secured against property, ERMs and loans secured against other collateral. They are attractive because investors are rewarded for illiquidity rather than credit risk. Structural features such as collateral, covenants and other security features mean that recoveries in the event of default are maximised and credit risk minimised.

Of our £17.7bn holding of corporate bonds and infrastructure, around 32% (HY2020: 30%, FY2020: 30%) (or 9% of total assets) is rated BBB and of those only £0.2bn is rated BBB- (HY2020: £0.1bn, FY2020: £0.2bn). Rothesay holds no sub-investment grade bonds.

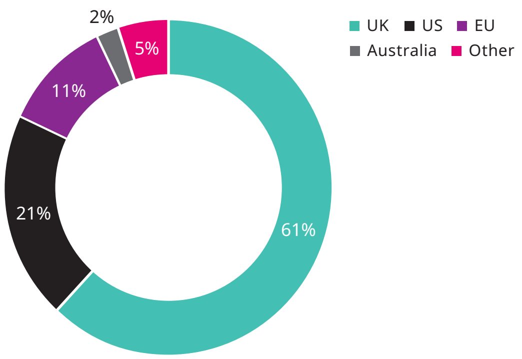
The charts below provide a breakdown of our investment portfolio at 30 June 2021 by sector and geography.

Our investments



Business review
continued

International diversification



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

As noted above in the Chief Executive's report, Rothesay has become a member of the UN-convened Net-Zero Asset Owner Alliance. We are transitioning our investment portfolio to net zero greenhouse gas emissions by 2050, aligned with the goal of the Paris Agreement to limit global warming to 1.5°C above pre-industrial levels. We have set the interim goal of reducing emissions by 20% over the next five years. We are also a signatory to the UN Principles for Responsible Investing, a supporter of the Task Force on Climate-related Financial Disclosures and an early adopter of the Sustainability Reporting Standard for Social Housing.

For more information see our Environmental, Social and Governance report 2020, which is available on the Rothesay Limited website.

Prudential transaction update
On 14 March 2018, Rothesay and Prudential entered into a reinsurance transaction covering a £12bn portfolio of annuities. It was intended that this would be followed by an insurance business transfer under Part VII of the Financial Services and Markets Act 2000. However, following a High Court hearing in June 2019, the judge did not approve the proposed transfer. Rothesay and Prudential appealed this decision and in December 2020, the Court of Appeal ruled in favour of Rothesay and Prudential, providing clarity for us and the sector as a whole about the operation of Part VII transfers.

We are now in the process of again seeking approval to transfer the Prudential portfolio to Rothesay. Following a preliminary hearing in July, communication packs have been sent to those Prudential policyholders impacted by the transfer and documents relating to the proposed transfer can be found online. We now expect that the scheme will be again considered by the High Court in November 2021.

We are working hard to ensure an effective transfer of this business should we be granted approval. Until then the policyholders remain Prudential's customers and will continue to be serviced by them.

Brexit
Rothesay is a UK insurer serving the domestic market, so it's 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.

Leasehold reform
Our secured residential lending portfolio includes a number of loans secured on ground rents.

On 12 May 2021 the Government published the first of its planned bills relating to leasehold reform, the Leasehold Reform (Ground Rent) Bill. This Bill is focused on future leaseholds and is not intended to cover extensions of existing leases. We do not therefore expect that the Bill is likely to have a significant impact on our investments.

Business review
continued

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

Transition from LIBOR

The interest rate London Interbank Offer Rate (LIBOR) benchmark is expected to cease after the end of 2021 and our preparations for the transition to alternative rates are well advanced.

Rothesay closely monitors its exposure to the basis between LIBOR and Sterling Overnight Index Average (SONIA) swaps and has taken action to mitigate this risk. Most new trades are SONIA-based.

We are now using SONIA as the basis for setting the risk-free rate under IFRS. In June 2021, the Prudential Regulation Authority (PRA) published policy statement PS12/21 ‘Solvency II: Deep, liquid and transparent assessments, and GBP transition to SONIA’ which set out the way in which the risk-free rate will change as a result of the migration from LIBOR to SONIA. The impact of this change on our solvency coverage is not material.

Financial review

The financial review describes the financial performance of Rothesay Life Plc and its subsidiaries. Condensed consolidated interim financial statements have been prepared for the period ending 30 June 2021 to reflect the increasing materiality of RLP's subsidiaries. As at 30 June 2020 and 31 December 2020 the Company produced standalone financial statements and therefore the consolidated comparatives included in these condensed consolidated interim financial statements have not been audited.

IFRS Financial performance

In the period to 30 June 2021 Rothesay made a profit before tax of £331m (HY2020: £811m, FY2020 £1,474m). This is significantly 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 below provides an explanation of the way in which profits have been generated. Further explanation of the line items can be found in the notes on Alternative Performance Measures on page 52.

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 six months period was £111m (HY2020: £57m, FY2020: £449m).

We are patient when investing the premiums received, leading to a temporary reduction in profits from the delay in investing assets received as new business premiums of £213m (HY2020: a reduction of £146m, FY2020: a reduction of £547m) **(APM)**. We anticipate that this will reverse as assets are invested according to our long-term strategy. Profits for the period include profits of £279m generated on investment of the assets received as premiums last year (HY2020: £782m, FY2020: £909m) **(APM)**. As noted above, this is significantly lower than for the first half of 2020 because of the extraordinary market conditions seen at that time.

Profits generated on the in-force book were £219m (HY2020: £258m, FY2020: £476m) **(APM)**. These profits mainly arose from the release of prudent margins as the business runs off and as members exercise their options.

Rothesay made economic profits of £72m (HY2020: £6m, FY2020: £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 the first half of 2021, credit gains and the impact of the increase in property prices have been partially offset by the impact of increases in long-term interest rates and the strengthening pound.

Financial performance (Alternative analysis of profit generation) (APM)	**HY2021 £m**	HY2020 £m	FY2020 unaudited £m
New business profit (assuming assets fully invested)	**111**	57	449
Impact of temporary investment delay	**(213)**	(146)	(547)
Investment profit from prior year	**279**	782	909
Performance of in-force book	**219**	258	476
Non-economic assumption changes and model refinement	**19**	–	284
Acquisition costs	**(65)**	(50)	(114)
Administration expenses	**(28)**	(25)	(53)
Operating profit before tax	**322**	876	1,404
Borrowing costs	**(52)**	(54)	(108)
Project and other one-off expenses	**(11)**	(17)	(34)
Economic profits	**72**	6	212
IFRS profit before tax	**331**	811	1,474

COVID-19

The continued economic disruption as a result of COVID-19 has had some impact on the fair value of our financial investments although in many cases values have returned to pre-COVID-19 levels. Where possible, we have used observable market prices. Where assets have been valued using techniques where inputs are unobservable, we have considered whether adjustments need to be made. Given the recent strength of the UK property market, we have removed the 5% downwards adjustment to house prices when calculating the impact of the no negative equity guarantee of ERMs on the valuation rate of interest.

It is 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 but we have not made any changes to our 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.

Financial review
continued

Alternative Performance Measures
Rothesay's strategy is focused on protecting the security of policyholder benefits, growth through writing value-driven new business and, ultimately, delivering sustainable shareholder value. In the opinion of the Directors, the prescribed IFRS results and disclosures do not capture long-term value creation or changes to capital requirements and therefore do not fully reflect the performance of Rothesay. Rothesay therefore uses a number of Alternative Performance Measures (APMs) which focus on value generation and capital strength. Further information on the Company's APMs can be found on page 52, 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 statement of financial position highlights
The key line items in the condensed consolidated statement of financial position for Rothesay are summarised in the table below:

Statement of financial position highlights	**HY2021 £m**	HY2020 £m	FY2020 unaudited £m
Financial investments	**82,452**	90,831	93,712
Reinsurance assets	**503**	475	616
Other assets	**1,912**	2,120	1,947
Total assets	**84,867**	93,426	96,275
Share capital and share premium	**2,463**	2,463	2,463
Tier 1 notes	**347**	347	347
Reserves	**2,409**	1,606	2,143
Total equity	**5,219**	4,416	4,953
Insurance contract liabilities	**53,457**	49,399	55,247
Reinsurance liabilities	**988**	938	993
Payables and financial liabilities	**23,636**	37,101	33,546
Borrowings	**1,428**	1,425	1,426
Other	**139**	147	110
Total liabilities	**79,648**	89,010	91,322
Total equity and liabilities	**84,867**	93,426	96,275

The fall in the value of financial investments, primarily as a result of the significant rise in long-term interest rates, meant that total assets decreased from £96.3bn as at 31 December 2020 to £84.9bn as at 30 June 2021. Much of the fall in 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)** fell from £62.1bn at 31 December 2020 to £60.7bn as at 30 June 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 52.

Insurance contract liabilities reduced from £55.2bn as at 31 December 2020 to £53.5bn as at 30 June 2021 largely as a result of rising interest rates. This was partially offset by new business and the impact of credit gains on the valuation interest rate.

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 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. During 2021 the IFRS 17 project team has made good progress and work continues on developing methodology and models. The IFRS 17 project is overseen by the Audit Committee.

IFRS 9
Rothesay has taken the deferral option in relation to IFRS 9 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.

Risk and capital management

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

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

The principal risks remain unchanged from the year ended 31 December 2020.

Following their periodic reviews, RLP's insurance financial strength ratings have been reaffirmed as A3 by Moody's Investors Service and A+ by Fitch Ratings. Moody's also changed the rating outlook from stable to positive.

Capital management

Rothesay aims to maintain solvency coverage in the range of 130% to 150% of the regulatory minimum solvency capital requirement (SCR), so our capital position provides significant surplus capital for new business and potential future dividends. We operate a dynamic capital management framework which uses interest rate and other hedging to protect both the solvency position and the embedded value of the business. This is facilitated by our access to real-time solvency information.

Rothesay's solvency position has remained robust throughout the period despite considerable market volatility. We started the year with capital surplus well above our target operating range. As at 30 June 2021, Rothesay had an SCR coverage ratio **(APM)** of 204% (HY2020: 189%, FY2020: 203%), giving us significant excess capital to write new business.

The solvency positions of RLP is summarised in the table below.

Solvency position of RLP	**HY2021 £m**	HY2020 £m	FY2020 unaudited £m
Tier 1 capital	**5,703**	5,438	5,857
Tier 2 capital	**966**	968	984
Tier 3 capital	**500**	502	512
Own Funds **(APM)** available to meet SCR	**7,169**	6,908	7,353
SCR	**3,508**	3,654	3,623
Surplus above SCR	**3,661**	3,254	3,730
SCR coverage (APM)	**204%**	189%	203%
SCR coverage without transitional solvency relief	**157%**	151%	154%

The value of transitional solvency relief was last recalculated on 31 December 2020 due to the large fall in interest rates during 2020. We estimate that recalculating transitional relief as at 30 June 2021 would lead to a 2% reduction in solvency coverage at RLP.

Rothesay's SCR is calculated using a partial internal model (PIM). The PIM means that Rothesay's bespoke

Risk and capital management
continued

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 (FIM), 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 market risk proportion has decreased from 64% of the SCR at the end of 2020 to 62% of the SCR, due to changes in economic conditions and the impact of new business on insurance risk.

	HY2021 %	HY2020 %	FY2020 unaudited %
Market risk	**62**	64	64
Insurance risk	**26**	25	24
Operational risk	**6**	6	6
Counterparty risk	**6**	5	6

An analysis of the change in Own Funds (**APM**) and SCR is shown in the table below. Own Funds (**APM**) have decreased from £7,353m to £7,169m after allowing for amortisation of 1/16th of transitional solvency relief on 1 January 2021. The biggest drivers of this change were changes in economic conditions (particularly increasing long-term interest rates) and the impact of new business. The SCR (**APM**) decreased from £3,623m to £3,508m, largely as a result of increasing interest rates. This was partially offset by the impact of the reduction in loss absorbing capacity of deferred tax (LACDT). Given the impact of the reduction in LACDT, we have disclosed this separately from the performance of in-force book.

	HY2021		HY2020		FY2020 unaudited	
Change in Own Funds and SCR **(APM)**	**Change in Own Funds £m**	**Change in SCR £m**	Change in Own Funds £m	Change in SCR £m	Change in Own Funds £m	Change in SCR £m
Opening position	**7,353**	**3,623**	6,113	3,038	6,113	3,038
Amortisation of 1/16th of transitional on 1 January	**(108)**	**25**	(88)	18	(88)	18
New business (on a fully invested basis)	**(13)**	**153**	36	75	5	455
Short-term impact of delayed investment	**(86)**	**(91)**	(18)	(2)	(218)	(294)
Investment impact from prior year	**26**	**58**	606	116	606	304
Performance of in-force book	**170**	**(145)**	167	(106)	631	(415)
Non-economic assumption changes	**13**	**(6)**	–	–	192	(54)
Acquisition costs and administration expenses	**(93)**	**–**	(76)	–	(167)	–
Borrowing costs	**(52)**	**–**	(54)	–	(108)	–
Non-recurring and project expenditure	**(11)**	**–**	(17)	–	(34)	–
Economic conditions	**(64)**	**(238)**	239	457	421	454
LACDT (Prior year profit adjustment)	**–**	**140**	–	58	–	117
Impact of not recalculating transitional at HY21	**34**	**(11)**	N/A	N/A	–	–
Closing position	**7,169**	**3,508**	6,908	3,654	7,353	3,623

All numbers are shown net of tax impacts and allow, where relevant, for changes in transitional solvency relief for half year 2021 and full year 2020. Note that the movement analysis for half year 2020 did not assume that transitional relief was recalculated. Where reinsurance is transacted in a period after the business was written the impact is included in the performance of in-force book.

Viability and going concern

Rothesay viability statement

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

Why we assess viability

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

The period we assess

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

Rothesay's own views of risk and associated capital requirements have been investigated through the Own Risk and Solvency Assessment (ORSA), including consideration of the way in which future changes to Rothesay's risk profile and also external influences may impact on the Group's solvency needs and ability to execute the business plan. The ORSA, approved by the Board in December 2020, 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 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. More details 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 July 2020 and has not been impacted by the change in ownership of Rothesay, and remains appropriate. 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

Based on the results of this analysis, the Board has a reasonable expectation that Rothesay will be able to continue in operation and meet its liabilities and obligations as they fall due over the five-year period of the assessment.

The same analysis also informs the Board's assessment of Rothesay's ability to continue to adopt the going concern basis of accounting.

Report of the Directors

The Directors present their condensed consolidated financial statements for Rothesay Life Plc, registered number 06127279, (the Company, Rothesay or RLP) for the period ended 30 June 2021. RLP is a registered public limited company incorporated and domiciled in the United Kingdom.

Comparative information has been presented for the period ended 30 June 2020 and the year ended 31 December 2020.

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

- An indication of important events that have occurred during the six months ended 30 June 2021 and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related-party transactions in the six months ended 30 June 2021 and any material changes in the related-party transactions described in the last Annual Report.

The financial statements were authorised for issue by the Board of Directors on 12 August 2021.

ON BEHALF OF THE BOARD

Addy Loudiadis
Chief Executive Officer
12 August 2021

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
Ed Giera (from 25 January 2021)
Jane Hanson (from 1 January 2021)
Heather Jackson (from 1 April 2021)
Ray King
Terry Miller
Simon Morris (to 13 February 2021)
Charles Pickup
Bill Robertson

Section

3 Financial Statements

Condensed consolidated statement of comprehensive income

FOR THE PERIOD ENDED 30 JUNE 2021

	Note	**HY2021 £m**	HY2020[1] £m	FY2020[2] £m
Income				
Gross premiums written	B.1	**1,729**	851	7,281
Premiums ceded to reinsurers		**(795)**	(713)	(1,412)
Net premiums written		**934**	138	5,869
Investment (loss)/return	B.2	**(1,475)**	2,974	4,648
Total revenue		**(541)**	3,112	10,517
Policyholder claims		**(1,392)**	(1,346)	(2,798)
Less: reinsurance recoveries		**740**	670	1,307
Change in insurance contract liabilities	E.3	**1,790**	(1,467)	(7,315)
Change in the reinsurers' share of insurance contract liabilities	E.1	**(108)**	(3)	83
Net claims and change in insurance liabilities		**1,030**	(2,146)	(8,723)
Acquisition and administration expenses	B.3	**(104)**	(92)	(201)
Finance costs	B.4	**(54)**	(63)	(119)
Total expenses		**(158)**	(155)	(320)
Profit before tax		**331**	811	1,474
Income tax expense	B.5	**(62)**	(151)	(277)
Profit for the period/financial year		**269**	660	1,197

1. The Company produced standalone financial statements as at 30 June 2020.
2. The Company produced standalone financial statements as at 31 December 2020. The consolidated comparatives are therefore unaudited.

All income and expenses are related to continuing operations.

The condensed consolidated statement of comprehensive income includes all income and expenses for the period. Rothesay has no items required to be reported in other comprehensive income, therefore a separate comprehensive income statement has not been presented.

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

Condensed consolidated statement of financial position

AS AT 30 JUNE 2021

	Note	**HY2021 £m**	HY2020[1] £m	FY2020[2] £m
Assets				
Property, plant and equipment		**7**	8	7
Lease – right of use asset	I.3	**32**	35	34
Financial investments	D.1	**82,452**	90,831	93,712
Reinsurance assets	E.1	**503**	475	616
Accrued interest and prepayments		**582**	545	663
Receivables		**905**	1,201	969
Cash and cash equivalents		**386**	331	274
Total assets		**84,867**	93,426	96,275
Equity and liabilities				
Equity				
Share capital	C.1	**510**	510	510
Tier 1 notes	C.2	**347**	347	347
Share premium	C.3	**1,953**	1,953	1,953
Retained earnings	C.3	**2,409**	1,606	2,143
Total equity		**5,219**	4,416	4,953
Liabilities				
Reinsurance liabilities	E.1	**988**	938	993
Insurance contract liabilities	E.3	**53,457**	49,399	55,247
Payables and financial investment liabilities	D.2	**23,636**	37,101	33,546
Leasehold liabilities	I.3	**41**	39	40
Borrowings	D.3	**1,428**	1,425	1,426
Deferred tax liabilities	G.1	**6**	1	–
Accruals and deferred income		**92**	107	70
Total liabilities		**79,648**	89,010	91,322
Total equity and liabilities		**84,867**	93,426	96,275

1. The Company produced standalone financial statements as at 30 June 2020.
2. The Company produced standalone financial statements as at 31 December 2020. The consolidated comparatives are therefore unaudited.

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

The financial statements were approved by the Board of Directors on 12 August 2021 and signed on its behalf by:

Addy Loudiadis
Chief Executive Officer
12 August 2021

Company number 06127279

Condensed consolidated statement of changes in equity

FOR THE PERIOD ENDED 30 JUNE 2021

	Share capital £m	Share premium £m	Tier 1 notes £m	Retained earnings £m	Total equity £m
As at 1 January 2021	**510**	**1,953**	**347**	**2,143**	**4,953**
Adjustment to retained earnings	**–**	**–**	**–**	**(3)**	**(3)**
Profit for the financial period	**–**	**–**	**–**	**269**	**269**
As at 30 June 2021	**510**	**1,953**	**347**	**2,409**	**5,219**

FOR THE PERIOD ENDED 30 JUNE 2020

	Share capital £m	Share premium £m	Tier 1 notes £m	Retained earnings £m	Total equity £m
As at 1 January 2020	510	1,953	347	946	3,756
Profit for the financial period	–	–	–	660	660
As at 30 June 2020	510	1,953	347	1,606	4,416

FOR THE YEAR ENDED 31 DECEMBER 2020

Unaudited	Share capital £m	Share premium £m	Tier 1 notes £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

Condensed consolidated cash flow statement

FOR THE PERIOD ENDED 30 JUNE 2021

	Note	**HY2021 £m**	HY2020 £m	FY2020 unaudited £m
Cash flows from operating activities				
Profit for the period/financial year		**269**	660	1,197
Adjustments for non-cash movements in net profit for the period				
Adjustment to retained earnings		**(3)**	–	–
Depreciation		**1**	1	2
Leasehold depreciation	I.3	**2**	1	3
Amortisation of debt costs	B.4	**2**	2	3
Financing charge on leasehold	I.3	**1**	1	1
Interest income	B.2	**(716)**	(690)	(1,400)
Interest expense	B.4	**51**	64	115
Income tax expense	B.5	**63**	150	230
Net decrease/(increase) in operational assets				
Financial investments	D.1	**11,260**	(17,090)	(19,971)
Reinsurance asset	E.1	**113**	(87)	(228)
Receivables		**65**	(316)	(85)
Prepayment		**4**	159	126
Net decrease/(increase) in operational liabilities				
Insurance contract liabilities	E.3	**(1,790)**	1,467	7,315
Reinsurance liabilities	E.1	**(5)**	90	145
Financial investment liabilities	D.2	**(9,518)**	14,323	10,632
Other payables	D.2	**(369)**	759	969
Deferred tax	G.1	**6**	–	(1)
Accruals and deferred income		**(7)**	(1)	(7)
Net cash flows generated from operating activities		**(571)**	(507)	(954)
Interest paid		**(23)**	(34)	(115)
Interest received		**793**	740	1,366
Tax paid		**(87)**	(141)	(295)
Net cash flows generated from operating activities		**112**	58	2
Cash flows used in financing activities				
Repayment of borrowings	D.3	**–**	(100)	(100)
Proceeds from issuance of debt (net of issuance costs)	D.3	**–**	96	96
Net cash flows used in financing activities		**–**	(4)	(4)
Net cash outflows from investing activities				
Acquisition of property, plant and equipment		**–**	–	(1)
Cash flow on leasehold	I.3	**–**	–	–
Net cash outflows used in investing activities		**–**	–	(1)
Net increase/(decrease) in cash and cash equivalents		**112**	54	(3)
Cash and cash equivalents at 1 January		**274**	277	277
Cash and cash equivalents at 30 June/31 December		**386**	331	274

Notes to the condensed financial statements

Note A – Significant accounting policies

A.1 Basis of preparation and consolidation

The condensed consolidated interim financial statements of Rothesay for the six-month period ended 30 June 2021 have been prepared and approved by the Directors in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the UK. The condensed consolidated interim financial statements do not include all of the notes included in the annual financial report. Accordingly, this report should be read in conjunction with the annual financial statements for the year ended 31 December 2020, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it is applied in the European Union.

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 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 period reported as a result of the change in framework.

Condensed consolidated interim financial statements have been prepared for the period ending 30 June 2021 to reflect the increasing materially of RLP's subsidiaries. As at 30 June 2020 and 31 December 2020 the Company produced standalone financial statements and therefore the consolidated comparatives included in these condensed consolidated interim financial statements have not been audited.

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

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

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

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

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

A.2 Accounting policies and change in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. Rothesay has not adopted any new standards or any changes to existing standards, including matters of significant judgement and use of estimates. The accounting policies of Rothesay can be found in the 2020 Annual Report.

Notes to the condensed financial statements
continued

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

	Regular premiums			Single premiums		
	HY2021 £m	HY2020 £m	FY2020 £m	**HY2021 £m**	HY2020 £m	FY2020 £m
Pension bulk annuities	**127**	130	260	**1,602**	721	7,021
Total gross premiums written	**127**	130	260	**1,602**	721	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 (loss)/return
Investment (loss)/return includes fair value gains and losses. Interest in included on an accrual basis.

	HY2021 £m	HY2020 £m	FY2020 unaudited £m
Interest income on financial investments at fair value through profit and loss	**716**	690	1,400
Unrealised (losses)/gains on financial investments	**(2,670)**	2,351	2,745
Realised gains/(losses) on financial investments	**509**	(44)	561
Investment management expenses	**(30)**	(23)	(58)
Total investment (loss)/return	**(1,475)**	2,974	4,648

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

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

B.3 Acquisition and administration expenses

Acquisition and administration expenses can be broken down as follows:

	HY2021 £m	HY2020 £m	FY2020 unaudited £m
Acquisition costs	**65**	50	114
Administration expenses – recurring	**28**	25	53
Administration expenses – projects and other one-off expense	**11**	17	34
Total operating expense	**104**	92	201

Project and other one-off expenses include reinsurance fees and charitable contributions. Projects include the development of the full internal model, the development of Rothesay's IT platform and development activity by it's third party administrators.

Notes to the condensed financial statements
continued

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

	HY2021 £m	HY2020 £m	FY2020 £m
Interest payable on collateral	**1**	3	3
Interest payable on collateralised agreements and financing	**1**	6	8
Total interest payable on collateral and collateralised agreements	**2**	9	11
Interest payable on borrowings from participating interest	**9**	12	21
Interest payable on third party borrowings	**42**	42	86
Financing charge on leasehold asset	**1**	–	1
Total borrowing costs	**52**	54	108
Net finance costs	**54**	63	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 Tier 1 note is included in interest payable on third party borrowings.

B.5 Income tax expense
The major components of income tax expense for the periods ended 30 June 2021 and 30 June 2020 and the financial year ended 31 December 2020 are:

	HY2021 £m	HY2020 £m	FY2020 unaudited £m
Current income tax:			
UK corporation tax	**63**	125	279
Prior year adjustment	**5**	–	(1)
Total current income tax	**68**	125	278
Deferred tax:			
Origination and reversal of temporary differences	**(6)**	26	(1)
Total deferred tax	**(6)**	26	(1)
Total tax expense in the condensed consolidated statement of comprehensive income	**62**	151	277

The tax expense in the condensed consolidated statement of comprehensive income for the period and the standard rate of corporation tax in the UK of 19% (HY2020: 19%, FY2020: 19%) is reconciled below:

	HY2021 £m	HY2020 £m	FY2020 unaudited £m
Profit on ordinary activities before taxation	**331**	811	1,474
Tax calculated at UK standard rate of corporation tax of 19% (2020: 19%)	**63**	154	280
Prior year adjustment	**5**	–	(1)
Temporary differences	**(6)**	–	–
Utilisation of losses surrendered by Group undertakings	**–**	(3)	(2)
Total tax expense reported in the condensed consolidated statement of comprehensive income	**62**	151	277

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

Notes to the condensed financial statements
continued

Note C – Equity
C.1 Share capital
At 30 June 2021, 30 June 2020 and 31 December 2020 share capital comprised:

	HY2021		HY2020		FY2020	
	No.	**£m**	No.	£m	No.	£m
Authorised share capital (ordinary shares of £1 each)	**510,528,696**	**510**	510,528,696	510	510,528,696	510

C.2 Restricted Tier 1 notes

	HY2021 £m	HY2020 £m	FY2020 £m
Loan notes issued through public debt markets	**347**	347	347

On 5 September 2018, Rothesay issued £350m of Restricted Tier 1 notes with a fixed 6.875% 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 5 September 2028. If the notes are not repaid on that date, a 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 which becomes mandatory upon breach or non-compliance with the Company SCR, a breach of the minimum capital requirement (MCR) or where the Company has insufficient distributable reserves.

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

(i) eligible Own Fund items are less than or equal to 75% of the SCR;
(ii) eligible Own Fund items are less than or equal to 100% of the MCR; or
(iii) a breach of the SCR has occurred and has not been remedied within three months.

C.3 Share premium account and reserve

	Share premium £m	**Retained earnings £m**
1 January 2021	**1,953**	**2,143**
Adjustment to retained earnings	**–**	**(3)**
Profit for the financial period	**–**	**269**
30 June 2021	**1,953**	**2,409**

	Share premium £m	Retained earnings £m
1 January 2020	1,953	946
Profit for the financial period	–	660
30 June 2020	1,953	1,606

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

C.4 Dividends on ordinary shares
The Directors have recommended no payment of interim dividends during the period ended 30 June 2021 (HY2020: £nil; FY2020: £nil). The Directors have recommended no final ordinary dividend in respect of the year ended 31 December 2020.

Notes to the condensed financial statements
continued

Note D – Financial assets and liabilities
D.1 Financial investments
Rothesay's financial investments are grouped in a single category:

Group and Company	**HY2021 £m**	HY2020 £m	FY2020 £m
Financial investments carried at fair value through profit and loss, designated at initial recognition	**82,452**	90,831	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.

COVID-19
The continued economic disruption as a result of COVID-19 has had some impact on the fair value of Rothesay's financial investments although in many cases values have returned to pre-COVID-19 levels. 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.

The following tables show an analysis of financial investments recorded at fair value by level of the fair value hierarchy for HY2021, HY2020 and FY2020 (please refer to note D.2 for financial liabilities):

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

Notes to the condensed financial statements
continued

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

Group and Company 30 June 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Collective investment schemes	3,467	–	–	3,467
Government sub sovereign and agency obligations	6,673	10,477	–	17,150
Corporate bonds and other corporate debt	–	24,550	1,172	25,722
Derivative assets	–	32,599	1	32,600
Collateralised agreements and financing	–	2,145	–	2,145
Loans secured on property	–	–	6,483	6,483
Equity release mortgages	–	–	3,054	3,054
Certificate of deposits	–	210	–	210
Total financial investments at fair value	10,140	69,981	10,710	90,831

Group and Company 31 December 2020	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 (largely the rise in long-term interest rates) is offset by the movement in the value of derivative liabilities such that on a net basis the value of derivatives fell by £634m in the first half of 2021.

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

Approximately 19% (HY2020: 12%, FY2020: 17%) of the total financial assets recorded at fair value are valued based on estimates and recorded as Level 3 investments.

Notes to the condensed financial statements
continued

Note D – Financial assets and liabilities (continued)
D.1 Financial investments (continued)
The following table shows a reconciliation of the opening and closing recorded amounts in relation to the Level 3 financial instruments recorded at fair value (excluding equity release mortgages which are discussed in the equity release mortgages section of note D.1 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	**(24)**	**281**	**(181)**	**76**
Net purchases/additions	**(1)**	**228**	**–**	**227**
At 30 June 2021	**1,161**	**7,032**	**3,374**	**11,567**
At 1 January 2020	1,088	6,063	–	7,151
Total gains in the statement of comprehensive income:				
Unrealised gains	2	64	–	66
Realised gains	–	12	–	12
Transfer into Level 3	90	–	1	91
Transfer out of Level 3	(17)	–	–	(17)
Net purchases/additions	9	344	–	353
At 30 June 2020	1,172	6,483	1	7,656
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.2 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 in the first half of the year (HY2020: £91m, FY2020: £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. No financial assets were transferred from Level 3 to Level 2 in the first six months of 2021 (HY2020: £17m, FY2020: £47m).

Notes to the condensed financial statements
continued

Note D – Financial assets and liabilities (continued)
D.1 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. There were no changes in demographic assumptions in the period or in the comparative periods shown.

Group and Company	**HY2021 £m**	HY2020 £m	FY2020 £m
Carrying amount at 1 January	**4,222**	2,669	2,669
Increase in respect of new business	**491**	314	1,444
Redemptions/repayments	**(138)**	(56)	(145)
Accrued interest for the period	**82**	59	126
Change in economic assumptions	**(161)**	68	128
Closing balance at end of period/year	**4,496**	3,054	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	**HY2021 £m**	HY2020 £m	FY2020 £m
Less than one year	**269**	110	249
One to five years	**989**	682	913
Over five years	**3,238**	2,262	3,060
Total	**4,496**	3,054	4,222

Notes to the condensed financial statements
continued

Note D – Financial assets and liabilities (continued)
D.1 Financial investments (continued)
Sensitivity of Level 3 financial investments measured at fair value to changes in key assumptions
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.

			HY2021			
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	**1,161**	**(20)**	**(3)**	**(3)**
		-25bps	**1,161**	**20**	**3**	**3**
Loans secured on property	Liquidity premium	+25bps	**7,032**	**(280)**	**–**	**–**
		-25bps	**7,032**	**305**	**–**	**–**
Loans secured on property	Property prices	+10%	**7,032**	**24**	**37**	**30**
		-10%	**7,032**	**(38)**	**(68)**	**(55)**
Equity release mortgages	Liquidity premium	+25bps	**4,496**	**(131)**	**–**	**–**
		-25bps	**4,496**	**138**	**–**	**–**
Equity release mortgages	House prices	+10%	**4,496**	**72**	**71**	**58**
		-10%	**4,496**	**(92)**	**(92)**	**(74)**
Derivative assets	LPI bid-mid spread	+15bps	**3,374**	**(15)**	**(15)**	**(12)**
		-15bps	**3,374**	**15**	**15**	**12**
Financial liabilities						
Derivative liabilities	LPI bid-mid spread	+15bps	**3,946**	**178**	**178**	**144**
		-15bps	**3,946**	**(178)**	**(178)**	**(144)**
Collateralised financing agreements	Liquidity premium	+25bps	**207**	**14**	**14**	**11**
		-25bps	**207**	**(14)**	**(14)**	**(11)**

Notes to the condensed financial statements
continued

Note D – Financial assets and liabilities (continued)
D.1 Financial investments (continued)
Sensitivity of Level 3 financial investments measured at fair value to changes in key assumptions (continued)

			HY2020			
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	+50bps	1,172	(44)	(7)	(6)
		-50bps	1,172	47	7	6
Loans secured on property	Liquidity premium	+25bps	6,483	(264)	–	–
		-25bps	6,483	283	–	–
Loans secured on property	Property prices	+10%	6,483	16	34	27
		-10%	6,483	(20)	(74)	(60)
Equity release mortgages	Liquidity premium	+50bps	3,054	(171)	–	–
		-50bps	3,054	187	–	–
Equity release mortgages	House prices	+10%	3,054	65	65	53
		-10%	3,054	(81)	(82)	(67)
Derivative assets	Expected default spread	+50bps	1	(1)	(1)	–
		-50bps	1	1	1	–

No comparatives are shown for financial liabilities because Level 3 financial liabilities were immaterial at 30 June 2020.

Notes to the condensed financial statements
continued

Note D – Financial assets and liabilities (continued)
D.1 Financial investments (continued)
Sensitivity of Level 3 financial investments measured at fair value to changes in key assumptions (continued)

Group and Company Impact on financial assets and PBT	Main assumptions	Changes in assumptions	FY2020 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 condensed financial statements
continued

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

Group	**HY2021 £m**	HY2020 £m	FY2020 unaudited £m
Derivative financial instruments	**21,075**	33,485	30,359
Collateralised financing agreements	**657**	1,448	894
Government, sub sovereign and agency obligations	**4**	10	–
Total financial investment liabilities	**21,736**	34,943	31,253
Deposits received as collateral from third parties	**1,628**	1,869	2,063
Amounts due to Group undertakings	**54**	31	66
Current tax payable	**35**	91	65
Other payables	**183**	167	99
Total payables	**1,900**	2,158	2,293
Total payables and financial investment liabilities	**23,636**	37,101	33,546

Company	**HY2021 £m**	HY2020 £m	FY2020 £m
Derivative financial instruments	**21,075**	33,485	30,359
Collateralised financing agreements	**657**	1,448	894
Government, sub sovereign and agency obligations	**4**	10	–
Total financial investment liabilities	**21,736**	34,943	31,253
Deposits received as collateral from third parties	**1,628**	1,869	2,063
Amounts due to Group undertakings	**54**	31	66
Current tax payable	**35**	91	65
Other payables	**183**	167	100
Total payables	**1,900**	2,158	2,294
Total payables and financial investment liabilities	**23,636**	37,101	33,547

Financial liabilities are recorded at fair value, of which £4,153m are valued using Level 3 techniques (HY2020: £2.9m, FY2020: £4,737m). The Level 3 financial liabilities are predominantly LPI linked derivatives, which were moved from Level 2 into Level 3 in the second half of 2020 based on our assessment that the significant internal inputs to the LPI pricing model are unobservable as a result of illiquidity in the LPI swap market. The remainder of the financial liabilities are valued using Level 2 techniques.

No financial liabilities were transferred from Level 2 to Level 3 in the first half of 2021 (HY2020: £nil, FY2020: £4,731m). Level 3 financial liabilities have decreased in market value by £584m in the period as a result of changes in economic conditions (HY2020: £2m increase, FY2020: £5m increase).

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

Notes to the condensed financial statements
continued

Note D – Financial assets and liabilities (continued)
D.3 Borrowings
Rothesay's borrowings are as follows:

Group and Company	**HY2021 £m**	HY2020 £m	FY2020 £m
Subordinated loans from participating interest	**299**	298	298
Subordinated loan notes	**1,129**	1,127	1,128
Total borrowed	**1,428**	1,425	1,426

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 participating interest.

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

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	**HY2021 £m**	HY2020 £m	FY2020 £m	**HY2021 £m**	HY2020 £m	FY2020 £m
Subordinated loans from participating interest										
£300m	19 September 2017	19 September 2028	19 September 2023 and annually thereafter	6.05%	**299**	298	298	**315**	292	317
Subordinated loans										
£250m	22 October 2015	22 October 2025	No call option	8%	**249**	249	249	**314**	295	317
£500m	12 July 2019	12 July 2026	No call option	3.375%	**486**	484	485	**538**	494	533
£400m	17 September 2019	17 September 2029	17 September 2024	5.5%	**394**	394	394	**446**	422	447

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

For the period ended 30 June 2021, an interest expense of £41m (HY2020: £42m, FY2020: £83m) was recognised in the condensed 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 condensed 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**	**30 June 2021 £m**
Subordinated loans from participating interest	**298**	**–**	**1**	**299**
Subordinated loan notes	**1,128**	**–**	**1**	**1,129**
Total borrowings	**1,426**	**–**	**2**	**1,428**

Notes to the condensed financial statements
continued

Note D – Financial assets and liabilities (continued)
D.3 Borrowings (continued)
Reconciliation of borrowings (continued)

Group and Company	1 January 2020 £m	Cash flows £m	Non-cash flows £m	30 June 2020 £m
Subordinated loans from participating interest	398	(100)	–	298
Subordinated loan notes	1,029	96	2	1,127
Total borrowings	1,427	(4)	2	1,425

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

Notes to the condensed financial statements
continued

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

Group and Company	**HY2021 £m**	HY2020 £m	FY2020 £m
Insurance contract liabilities	**53,457**	49,399	55,247
Reinsurance assets	**(503)**	(475)	(616)
Reinsurance liabilities	**988**	938	993
Insurance contract liabilities, net of reinsurance	**53,942**	49,862	55,624

E.2 Reinsurance assets/liabilities
As noted previously, it is unclear whether COVID-19 will materially impact Rothesay's mortality assumptions. In valuing the reinsurance assets and liabilities (and consistent with the valuation of insurance contract liabilities), Rothesay have allowed for reported deaths but we have not made any changes to mortality assumptions as it is still too early to know what the long-term impact of COVID-19 might be on mortality.

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

Additional reinsurance has been transacted over the period covering new business.

At 30 June 2021, 30 June 2020 and 31 December 2020 Rothesay conducted an impairment review of the reinsurance assets and found no impairment necessary.

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

(a) Mortality assumptions
In what follows and consistent with year end 2020, we have changed the presentation of the mortality assumptions compared with prior years to improve clarity of disclosure.

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:

	HY2021		HY2020		FY2020	
Group and Company	**Pensions originated**	**Insurance originated**	Pensions originated	Insurance originated	Pensions originated	Insurance originated
Males	**100.5% S2PMA**	**95.6% S2PMA**	97.9% S2PMA	92.9% S2PMA	100.5% S2PMA	95.6% S2PMA
Females	**100.5% S2PFA**	**95.6% S2PFA**	97.9% S2PFA	92.9% S2PFA	100.5% S2PFA	95.6% S2PFA

Notes to the condensed financial statements
continued

Note E – Insurance contracts and reinsurance (continued)
E.3 Insurance contract liabilities (continued)
Key valuation assumptions (continued)
(a) Mortality assumptions (continued)
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. Past mortality improvements are applied assuming the base mortality rates are as at 2007.

Recent mortality experience is analysed annually for each pension scheme and for insurance originated business. The last review was carried out during 2020 and no adjustments have been made to reflect the potential impact of COVID-19 given the ongoing uncertainty. The best estimate base mortality assumptions used in the valuation are based on this actual mortality experience. Mortality assumptions are generally set with reference to a Rothesay-specific suite of mortality tables. These have been expressed for reporting purposes 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.

The changes to the single equivalent rates over 2020 reflected the inclusion of new business, differences from expected mortality in recent years, updates to reflect the view of reinsurers (via reinsurance quotations) and the impact of updating the mortality improvements used to roll the base tables forward to the current date.

Allowance is made for future improvements in annuitant mortality with reference to statistical analysis of historical rates of mortality improvements, expert judgement of future changes in mortality improvements, industry benchmarking and reinsurance pricing. During 2020 mortality improvement assumptions were updated to reflect recent mortality improvements including adoption of the CMI 2019 improvement model; these assumptions have been retained for the first half of 2021. No allowance has been made for the potential impact of COVID-19 given the uncertainty of its long-term impact. 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 rates have remained unchanged through 2021 and 2020. The assumed initial rates of improvements as at 30 June 2021 remain consistent with those used at 31 December 2020. The initial adjustment parameter introduced in the CMI 2018 model has not been adopted, with adjustment to the initial rate of mortality improvements continuing to be made through the Sk parameter. As part of the adoption of the CMI 2019 model in 2020, the calibration ages were amended to improve the shape of initial improvement rates by age.

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

	Future mortality improvements (excluding margins)		
Group and Company	**HY2021**	HY2020	FY2020
Males	**CMI_2019*_M[1.7%; Sκ=7.5]**	CMI_2018_M[1.7%; Sκ=7.3]	CMI_2019*_M[1.7%; Sκ=7.5]
Females	**CMI_2019*_F[1.7%; Sκ=7.5]**	CMI_2018_F[1.7%; Sκ=7.3]	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 (HY2020: 1.6 years, FY2020: 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 30 June 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 (HY2020: a yield of LIBOR less 12.5bps, FY2020: a yield of SONIA).

Notes to the condensed financial statements
continued

Note E – Insurance contracts and reinsurance (continued)
E.3 Insurance contract liabilities (continued)
Key valuation assumptions (continued)
(b) Economic assumptions including valuation rate of interest (continued)
A 2.5% prudential margin is then applied to the risk-adjusted internal rate of return obtained on the basket of matching assets and an allowance made for investment management expenses of 3bps p.a. (HY2020: 3bps p.a., FY2020: 3bps p.a.).

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

Group and Company	**HY2021**	HY2020	FY2020
Equivalent rate of interest	**1.69% p.a.**	1.47% 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.

The table below shows the average yield deduction by asset class before the application of the 2.5% prudential margin at 30 June 2021, 30 June 2020 and 31 December 2020.

	Average yield deduction		
Group and Company Asset class	**HY2021**	HY2020 (grouping restated)	FY2020
UK government approved securities	**0 bps**	0 bps	0 bps
Secured lending	**29 bps**	36 bps	35 bps
Supranational/other sovereign	**22 bps**	30 bps	27 bps
Secured residential lending	**26 bps**	30 bps	27 bps
Corporate bonds (without covering credit default swaps)	**58 bps**	74 bps	60 bps
Infrastructure	**65 bps**	77 bps	67 bps
Equity release mortgages	**77 bps**	137 bps	112 bps
Other	**40 bps**	50 bps	43 bps
Overall yield reduction	**32 bps**	41 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.1 and for the valuation rate of interest is calculated on a prudent basis allowing for future property price growth at a rate equivalent to 1.30% net of dilapidation costs and cost of sale (HY2020: 0.88%, FY2020: 0.97%) and house price volatility equivalent to 13% (HY2020: 13%, FY2020: 13%). Due to potential short-term distortion in the housing market during 2020, for 2020 we also included an assumption that house prices would fall 5%, with no offsetting change in assumed future house price growth, in calculating the value of the NNEG allowed for in the FY2020 yield deduction above. Following the continued recovery of the housing market during the first half of 2021, we have removed the assumed 5% fall in house prices from calculation of the NNEG for 30 June 2021. Changes in market conditions, along with the origination of lower-risk 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.

Notes to the condensed financial statements
continued

Note E – Insurance contracts and reinsurance (continued)
E.3 Insurance contract liabilities (continued)
Key valuation assumptions (continued)
(c) Expense assumption
The allowance made for future overhead maintenance expenses was updated at the end of 2020 following an investigation into the total costs incurred by Rothesay during 2020 and the projected 2021 expenses. As part of this investigation, these costs have been split between acquisition and maintenance expenses. The long-term business provisions include an allowance to provide for the expenses payable under the third party administration agreements together with the long-term business overhead expenses expressed as an amount per policy. The average per policy allowance is £40 per policy per annum (HY2020: £36 per policy per annum, FY2020: £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 (HY2020: 0.25% p.a., FY2020: 0.25% p.a.).

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

The modelling of member options allows for the probability that deferred annuitants choose to transfer their benefits each year. The cash flow profile resulting from the assumed take-up of member options impacts the composition of the basket of assets used to derive the valuation rate of interest (see E.2(b) on the previous page).

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

(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.

Group and Company	**HY2021 £m**	HY2020 £m	FY2020 £m
Carrying amount at 1 January	**55,624**	48,392	48,392
Increase in respect of new business	**1,701**	856	7,142
Release of liabilities	**(1,182)**	(1,111)	(2,498)
Effect of assumption changes and model refinement	**(2,194)**	1,721	2,579
Other	**(7)**	4	9
Closing balance at 30 June/31 December	**53,942**	49,862	55,624

Notes to the condensed financial statements
continued

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

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

Group and Company Net increase/(decrease) in liabilities	**HY2021** **£m**	HY2020 £m	FY2020 £m
Change in assumptions used			
Valuation rate of interest	**(3,218)**	2,298	3,435
Inflation	**1,043**	(577)	(412)
Effect of economic assumption changes	**(2,175)**	1,721	3,023
Demographics	**–**	–	(46)
Member options	**–**	–	(12)
Expenses	**–**	–	70
Model refinement	**(19)**	–	(456)
Effect of non-economic assumption changes and model refinement	**(19)**	–	(444)
Total effect of assumption changes	**(2,194)**	1,721	2,579

As shown previously, the valuation rate of interest increased by 37bps over the period, which led to the £3.2bn decrease in the net liability shown. This was partially offset by the impact of the rise in future rate of inflation.

Refinements were made to the modelling of transfers during the period leading to a reduction in net insurance contract liabilities of £19m.

(f) Sensitivity analysis
The schedule below provides an analysis of the reasonably possible movements in key assumptions that would have a material impact on liabilities (net of reinsurance), profit before tax (PBT) and equity. The analysis is based on a change in a single assumption whilst holding all other assumptions constant. The analysis assumes an instantaneous shock to the assumptions other than for the interest rate and inflation sensitivities where the impact of dynamic hedging is allowed for as market conditions change. The sensitivity of liabilities to interest rates and inflation decreased during 2021 as a result of changes in market conditions. The format of the sensitivity for credit has been revised such that where a credit spread widening assumption is shown, comparative information for the revised sensitivity is included.

Notes to the condensed financial statements

continued

Note E – Insurance contracts and reinsurance (continued)

E.3 Insurance contract liabilities (continued)

Key valuation assumptions (continued)

(f) Sensitivity analysis (continued)

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

Group and Company HY2020	Change in assumptions	(Decrease)/ increase in net liabilities £m	Increase/ (decrease) in PBT £m	Impact on equity £m
Annuitant mortality	+5% qx	(195)	192	155
Annuitant mortality	-5% qx	203	(200)	(162)
Interest rate	+100bps	(6,459)	(237)	(192)
Interest rate	-100bps	8,076	619	502
Inflation	+100bps	3,535	(207)	(167)
Inflation	-100bps	(3,203)	366	297
Credit spread widening	+50bps	(1,183)	(418)	(339)
Change in property prices	+10%	(18)	99	80
Change in property prices	-10%	56	(156)	(127)
Expenses	+10%	127	(127)	(103)

Notes to the condensed financial statements
continued

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

Group and Company FY2020	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 means that interest rates are assumed to fall below zero at all durations (HY2020: fall below zero for all durations, FY2020: fall below zero for all durations).

The impact of reinsurance on the sensitivity to mortality risk is a reduction of 84% (HY2020: 83%, 2020: 87%). The impact of reinsurance has changed due to changes in economic conditions and new business 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.

Notes to the condensed financial statements
continued

Note F – Risk and capital management
F.1 Capital management
Rothesay's capital resources are of critical importance. Rothesay's capital management framework is designed to meet the following objectives:
- to maintain financial strength in adverse conditions;
- to give customers long-term confidence in Rothesay;
- to satisfy 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.

From 1 January 2016, Rothesay was required to operate under the new Solvency II regime. Rothesay had sufficient capital available to meet its regulatory capital requirements at all times during the period ended 30 June 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 2020 and amortises by 1/16th each year from 1 January 2017. As at 30 June 2021, solvency estimates allow for amortisation of 5/16ths of transitional solvency relief (2020: 4/16ths). No recalculation was made at half year 2021.

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

Capital in excess of that required to meet the technical provisions is known as Own Funds. As at 30 June 2021, Own Funds for Rothesay were £7,169m (HY2020: £6,908m, FY2020: £7,353m) made up as follows:

Group and Company	**HY2021 £m**	HY2020 £m	FY2020 unaudited £m
Total IFRS equity	**5,219**	4,416	4,953
Liability valuation differences and other regulatory adjustments	**484**	1,022	904
Total Tier 1	**5,703**	5,438	5,857
Tier 2 debt valuation	**966**	968	984
Tier 3 debt valuation	**500**	502	512
Own Funds	**7,169**	6,908	7,353

Rothesay holds both debt and equity to optimise its capital structure and improve shareholder return.

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

Notes to the condensed financial statements
continued

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

Group	**HY2021 £m**	HY2020 £m	FY2020 unaudited £m
Temporary differences between the financial statements and the tax deductions	**(6)**	(1)	–
Total temporary differences	**(6)**	(1)	–

Company	**HY2021 £m**	HY2020 £m	FY2020 unaudited £m
Temporary differences between the financial statements and the tax deductions	**(81)**	(57)	(82)
Total temporary differences	**(81)**	(57)	(82)

The movements in the deferred tax balances were as follows:

Group	**HY2021 £m**	HY2020 £m	FY2020 unaudited £m
At 1 January	**–**	(1)	–
Timing difference	**(6)**	–	–
At financial statement date	**(6)**	(1)	–

Company	**HY2021 £m**	HY2020 £m	FY2020 unaudited £m
At 1 January	**(82)**	(31)	(31)
Timing difference	**1**	(26)	(51)
At financial statement date	**(81)**	(57)	(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 substantively 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 £0.04bn increase in the deferred tax liability.

Notes to the condensed financial statements
continued

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

Company Company undertakings	Country of incorporation	Primary business operation	**HY2021 £m**	HY2020 £m	FY2020 £m	**HY2021 % equity interest**	HY2020 % equity interest	FY2020 % equity interest
Rothesay Assurance Limited	UK	Service company	**–**	–	–	**100%**	100%	100%
LT Mortgage Financing Limited (LTMF)	UK	Service company	**6**	6	6	**100%**	100%	100%
Rothesay Property Partnership 1 LLP	UK	Service company	**–**	–	–	**100%**	–	–
Rothesay MA No.1 Limited (RMA1)	UK	Service company	**5**	5	5	**100%**	100%	100%
Rothesay MA No.2 Limited (RMA2)	UK	Service company	**–**	–	–	**100%**	100%	100%
Rothesay MA No.3 Limited (RMA3)	UK	Service company	**2**	–	2	**100%**	100%	100%
Rothesay MA No.4 Limited (RMA4)	UK	Service company	**–**	–	–	**100%**	100%	100%

Subsidiaries are held at the lower of cost and net realisable value.

The above subsidiary undertakings, are registered in the United Kingdom. The registered office and principal place of business for all subsidiary undertakings, except Rothesay Assurance Limited, is The Post Building, 100 Museum Street, London WC1A 1PB. The registered address of Rothesay Assurance Limited is 55 Baker Street, London W1U 7EU.

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.

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

On 3 October 2016, the PRA granted an application to cancel the permissions of Rothesay Assurance Limited. As it is now no longer needed, steps have been 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.

Notes to the condensed financial statements
continued

Note I – Other notes
I.1 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
The Company entered into various transactions with fellow participating interests which are subject to common control from the same source. No changes to the table below are required as a result of the change in ownership of Rothesay Limited.

	HY2021 £m	HY2020 £m	FY2020 £m
Statement of comprehensive income			
Change in the reinsurers' share of insurance contract liabilities and reinsurance recoveries	**(31)**	14	115
Finance costs	**(9)**	(12)	(21)
Operating expenses	**(4)**	(5)	(8)
Statement of financial position			
Reinsurance	**128**	58	159
Borrowings	**298**	298	298
Capital	**2,463**	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	**HY2021 £m**	HY2020 £m	FY2020 £m
Salaries, bonus and other employee benefits	**4**	3	20
Equity-based compensation payments	**5**	4	8
Total transactions	**9**	7	28

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

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

Notes to the condensed financial statements
continued

Note I – Other notes (continued)
I.1 Related parties disclosures (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	**HY2021 £m**	HY2020 £m	FY2020 £m
Statement of comprehensive income			
Cost transfer	**2**	3	5
Statement of financial position			
Other receivables	**47**	25	41
Capital	**2,464**	2,463	2,464

Transactions with LT Mortgage Financing Limited	**HY2021 £m**	HY2020 £m	FY2020 £m
Statement of financial position			
Other receivables	**50**	43	66
Capital	**6**	6	6

Transactions with Rothesay MA No.1 Limited	**HY2021 £m**	HY2020 £m	FY2020 £m
Statement of financial position			
Other receivables	**21**	14	12
Capital	**5**	5	5

Transactions with Rothesay MA No.3 Limited	**HY2021 £m**	HY2020 £m	FY2020 £m
Statement of financial position			
Other receivables	**4**	–	1
Capital	**2**	–	2

Transactions with RPML	**HY2021 £m**	HY2020 £m	FY2020 £m
Statement of comprehensive income			
Cost transfer	**(65)**	44	(99)
Statement of financial position			
Other payables	**53**	30	65

Transactions with Rothesay Asset Management US LLC	**HY2021 £m**	HY2020 £m	FY2020 £m
Statement of comprehensive income			
Transaction fee	**–**	(1)	–
Service fee	**(2)**	(2)	(6)
Statement of financial position			
Other receivables	**–**	1	–
Other payables	**–**	–	3

Notes to the condensed financial statements
continued

Note I – Other notes (continued)
I.1 Related parties disclosures (continued)
Transactions with LT Mortgage Financing Limited
In 2018, £1.3bn of Equity Release Mortgages (ERMs) were transferred from RLP to its subsidiary LT Mortgage Financing Limited (LTMF). During 2019 and 2020, a further £0.6bn and £1.2bn respectively of ERMs were transferred. During June 2021 a further £0.3bn of ERMs were transferred. In each case, LTMF became the beneficial owner in the ERMs in exchange for the issue of loan notes. These transactions took place on an arm's length basis using the fair value of the equity release mortgages. Under IAS 39 the loans cannot be derecognised from the Company as RLP effectively maintains all the risk and rewards and control of the mortgages after the securitisations through the loan notes. For the purposes of determining the valuation rate of interest under IFRS 4, these securitisations are ignored.

Transactions with Rothesay MA No.1 Limited
During December 2018, £778m 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). RMA3 became the beneficial owner in the Dutch mortgage loans in exchange for the issue of loan notes. These transactions took place on an arm's length basis using the fair value of the Dutch mortgages. Under IAS 39 the loans cannot be derecognised from the Company as RLP effectively maintains all the risk and rewards and control of the mortgages after the securitisations through the loan notes. For the purposes of determining the valuation rate of interest under IFRS 4, this securitisation is ignored.

I.2 Financial commitments and contingencies
During previous years Rothesay executed transactions to purchase partly funded bonds and forward settling bonds. Rothesay expects to pay a further £757m within the next five years (HY2020: £1,424m, FY2020: £999m), £544m of this being due within 12 months of the financial reporting date (HY2020: £802m, FY2020: £561m).

Group and Company	**HY2021 £m**	HY2020 £m	FY2020 £m
Not later than one year	**544**	802	561
Later than one year and no later than five years	**213**	622	438
Later than five years	**–**	–	–
Total other commitments	**757**	1,424	999

Notes to the condensed financial statements
continued

Note I – Other notes (continued)
I.3 Leases
(a) Amounts included in the statement of financial position
Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:
- fixed payments, less any lease incentives receivable;
- amounts expected to be payable by Rothesay under residual value guarantees;
- payments of penalties for terminating the lease; and
- lease payments to be made under reasonably certain extension options.

Lease payments are discounted using Rothesay's incremental borrowing rate of 3.374%. 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 asset represents the lease on our UK office which was executed in May 2019. The lease for The Post Building has a duration of 17 years with a break clause at 12 years which we have assumed is exercised.

Rothesay was not a lessor during the period.

Right of use assets

Group and Company	**HY2021 £m**	HY2020 £m	FY2020 £m
Right of use asset	**32**	35	34
Right of use asset – property			
Balance at 1 January	**34**	37	37
Depreciation charge for the period	**(2)**	(2)	(3)
Additions	**–**	–	–
Closing balance at 30 June/31 December	**32**	35	34

Notes to the condensed financial statements
continued

Note I – Other notes (continued)
I.3 Leases (continued)
(a) Amounts included in the statement of financial position (continued)
Lease liabilities

Group and Company	**HY2021 £m**	HY2020 £m	FY2020 £m
Lease liability	**41**	39	40
Maturity analysis based on undiscounted liabilities			
Current liabilities			
Less than one year	**–**	–	–
Non-current liabilities			
One to five years	**26**	23	22
More than five years	**14**	25	20
Total undiscounted lease liabilities	**40**	48	42

(b) Amounts recognised in the statement of comprehensive income

Group and Company	**HY2021 £m**	HY2020 £m	FY2020 £m
Depreciation charge of right of use assets – property	**2**	1	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	**HY2021 £m**	HY2020 £m	FY2020 £m
Depreciation charge of right of use assets – property	**2**	2	3
Financing charge on lease liabilities	**1**	–	1
Total cash flows for leases	**–**	2	–

Alternative Performance Measures

As noted on page 13, throughout the financial statements Rothesay has used a variety of measures to provide stakeholders with the necessary information on the performance and financial position of Rothesay. Where it is possible to reconcile to the financial statements this has been 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.

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)**	**HY2021 £m**	HY2020 £m	FY2020 unaudited £m
Total assets	**84,867**	93,426	96,275
Less reinsurance assets	**(503)**	(475)	(616)
Less payables and financial liabilities	**(23,636)**	(37,101)	(33,546)
Assets under management	**60,728**	55,850	62,113

Alternative presentation of IFRS profits

The alternative presentation of IFRS profits seeks to provide an explanation of the way in which profits have been generated by considering the movement in assets alongside the movement in liabilities. When taken together with the other items in the alternative analysis of profit generation, the items can be reconciled to the IFRS financial statements. See page 13.

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 3bps compared to the 1.69% yield being achieved at 30 June 2021 (HY2020: an increase of 4bps, FY2020: 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 our 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.

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

Alternative Performance Measures
continued

Measure	Reconciliation to IFRS
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	Note B.4. See the Glossary for further explanation.
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.2(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.

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.

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 %** 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 per 1,000 policyholders.	Complaints provide a useful indication of customer (dis)satisfaction.

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 the Company.
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 the Company 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.
Borrowing costs	Interest payable on borrowings. This is a subset of the finance costs shown in note B.4.
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.
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.
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.

Glossary of Terms
continued

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.
Full internal model	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.
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.

Glossary of Terms
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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.
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.
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	See Alternative Performance Measures.
Own risk and solvency assessment (ORSA)	An assessment of the risk to which the business is exposed as well as solvency forecasting in a range of scenarios, including consideration of the stresses that could jeopardise the Rothesay's business plans.
Partial internal model	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 transfers	Court-approved transfer of a portfolio of contracts from one entity to another.
Performance of in-force book	See Alternative Performance Measures.

Glossary of Terms
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Pillar I	Under Solvency II, represents the solvency capital requirement calculated using a standard formula or (partial) internal model.
Pillar 2	Under Solvency II, represents the required risk management principles and practices relating to the risk and capital estimates covered by Pillar 1.
Policyholders	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. Now being wound up.
Regular premiums	Payments of premium made regularly over the duration of the policy.
Reinsurance	Protection sold to or purchased from another insurance company.
Risk margin	Under Solvency II, the cost of transferring non-hedgeable risks.
RL	Rothesay Limited.
RLP	Rothesay Life Plc, the Group's regulated life company.
RMA1	Rothesay MA No.1 Limited.
RMA2	Rothesay MA No.2 Limited.
RMA3	Rothesay MA No.3 Limited.
RMA4	Rothesay MA No.4 Limited.
RPML	Rothesay Pensions Management Limited, the Group's service company.
S2PMA/S2PFA	S2PMA/S2PFA refer to mortality tables drawn up by the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries. These represent version 2 of the industry standard tables derived from pensioner data from self-administered pension schemes. Separate tables are utilised for males and females.
SCR coverage %	See Alternative Performance Measures.
Secured investments	Bespoke investments where very high levels of collateral have been negotiated and returns are generated through illiquidity premium.
Single premiums	Single premium policies of insurance are those that require only a single lump sum payment from the policyholder.
Sk	Smoothing parameter in CMI longevity improvement model determining the weighting on recent experience. Given recent improvements, a higher Sk than adopted by RL will generally lead to a higher initial assumed rate of mortality improvement.
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.

Glossary of Terms
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SONIA	The Sterling Overnight Index Average, abbreviated SONIA, is the effective overnight interest rate paid by banks for unsecured transactions in the British sterling market.
Strategy risk	The risk of loss in future earnings and capital arising from changes in the competitive, economic, legal or political environment, changing customer behaviour, or a failure to select appropriate strategic or long-term business plans.
Subordinated loan	A fixed interest issue or debt that ranks below other debt in order of priority for repayment if the issuer is liquidated. Holders are compensated for added risk through higher rates of interest. Under 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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